



HENDERSON LOGGIE

Aberdeen City Council

**Report to Members and the
Controller of Audit**

2005/2006

External Audit Report No: 2006/22

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Executive Summary

1.1 Introduction

- 1.1.1 We are pleased to submit our annual report in the second year of our two year appointment as external auditors of the Council. The report highlights key issues grouped under three distinct headings of financial, governance and performance. Four specific recommendations have been made and these will be followed up in due course.
- 1.1.2 Together with officers from across all of the Council's Services, and in particular with the City Chamberlain and her finance team, sound and effective working relationships built on mutual respect are being developed. This will greatly aid the audit process for both the Council and ourselves over the term of our new five year appointment.

1.2 Financial (Section 3, page 5)

- 1.2.1 The Council achieved the statutory deadline for the submission of its accounts for audit. The audit was completed with the issue of an unqualified audit opinion on 29 September 2006. A number of material and significant audit adjustments were noted, all of which were agreed.
- 1.2.2 We were not obliged to make any adverse comment on the Council's Statement on the System of Internal Financial Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.
- 1.2.3 The Council's Significant Trading Operations achieved their statutory break-even target covering their first three years of operation.

- 1.2.4 The Council reported a deficit of £16.14 million against a budgeted deficit of £10.93 million for the year to 31 March 2006. The provision for Equal Pay compensation payments of £17.582 million, offset by net under spends by Services and other largely non-recurring factors of £12.374 million, was the main reason for the adverse deficit position at 31 March 2006.
- 1.2.5 The Council's estimated pension liabilities at 31 March 2006 exceeded its share of assets by £138.9 million, a decrease of £27.9 million over the past year. A full actuarial valuation was carried out as at March 2005 which recommended annual increases in the employers' contributions.
- 1.2.6 Implementation of Single Status, estimated to cost £34.6 million over 4 years, has been partly budgeted within 2006/2007 with £7.8 million provided for in the budget. This amount will not be required in full in the year and the balance will be carried forward to help meet these costs in 2007/2008 and later years.
- 1.2.7 As a result of the deficit for the year the level of fund balances and reserves at 31 March 2006 is much reduced and now stands at £16.490 million, down £21.049 million from the previous year. Commitments against the General Fund at 31 March 2006 exceed fund balances by £3.89 million.
- 1.2.8 Due to the "Demand Led" pressures, the Council's overall financial position is regarded as precarious with the need for tight control over budgets during 2006/2007. Failure to make savings will result in the carry forward of over spends against the 2007/2008 budget. This in turn will impact on the available budget in 2007/2008 for front line services. Management are taking action to address the anticipated over spend, with Members being kept informed through the monitoring reports.



Executive Summary

1.3 Governance (Section 4, page 16)

- 1.3.1 The Standards and Scrutiny Committee has continued to function well, considering outcomes from both internal and external audit work and information from other sources. The committee has requested additional work to be undertaken to provide further information on particular topics or early assurance that action plans have been implemented and are having the desired effect.
- 1.3.2 Members' roles are well defined with induction and on-going training and development opportunities in place. Budget monitoring reports are routinely provided to Members and all reports include information about financial implications. Reports generally make it clear what action Members are being asked to take.
- 1.3.3 Preparation for changes that will be required following the 2007 council elections is well advanced. Members and officers have been involved in this process.
- 1.3.4 Two audit recommendations made last year in our Report to Members have still to be implemented. The timescales for implementing these actions have been changed to after the May 2007 elections. We will monitor the actions in due course.
- 1.3.5 To minimise audit duplication we liaise with Internal Audit during our planning to identify areas of their work that we can place reliance on. For 2005/2006 we agreed to place reliance on work covering a number of areas. Following review of the files relating to each of the reports we concluded that we could place reliance on the work and findings of Internal Audit.

1.4 Performance (Section 5, page 19)

- 1.4.1 The Community Plan, published in 2001, is currently being reviewed. The review is due for completion in December 2006. Links between the Community and Corporate Plans are in place but work to develop Service Plans has been on-going throughout the year and into 2006/2007.
- 1.4.2 The Council has forged productive alliances and improved partnership working with neighbouring authorities and other relevant public bodies through the North East Scotland Joint Public Sector Group (NESJPSG). Workshops held to improve the engagement of Members in this process identified governance as a key issue for future development.
- 1.4.3 During the year improvement in the way the Council engages with Communities Scotland and Scottish Enterprise Grampian have been achieved resulting in a number of joint projects being taken forward.
- 1.4.4 The Council introduced a new Performance Management System during the year to provide a single format for performance reports. There is still some work to do to ensure that all of these are fully populated with all the information they should contain. Citistat is used to help performance monitoring and has been found to be particularly useful in relation to Voids.
- 1.4.5 The Council has a proactive approach to dealing with significant demand led cost pressures within Health & Care and Learning and Leisure type services such as care management and spot care purchases and residential school placements through the Social Work Commissioning Board.



Executive Summary

1.4 Performance (Section 5, page 19) (Cont'd)

- 1.4.6 On 30 March 2006 the disposal of ground leases on industrial estates was approved, designed amongst other things to meet the cost of retrospective compensatory payments under an equal pay agreement.
- 1.4.7 There is a three year financial plan which has looked beyond the three year position for Capital expenditure, focussing on housing and non-housing spending. The budget setting and monitoring processes are coherent and planned, but budgets have not previously been explicitly linked with service plans. This is an area that is currently being developed for 2007/2008 onwards.
- 1.4.8 The Council is in the process of reviewing all assets, linking this with the development of a Resources Management Strategy. A partial stock transfer of just over a third of the current housing stock is being considered and the Marischal College Project is intended to rationalise the Council's corporate accommodation and maximise the use of new technology to deliver smarter customer focussed services.
- 1.4.9 The Council has recognised that there is scope for improvement in developing risk management arrangements across the authority.
- 1.4.10 The Council can demonstrate commitment to identification of efficiency savings as part of the wider change programme and the Continuous Improvement Programme. Development of guidance on how to classify and calculate proposed efficiency gains is an area identified for further improvement. This will be taken forward in a national context.
- 1.4.11 No transitional Best Value work has been carried out at the Council this year as a full Best Value review began in September 2006, and is planned to be reported early in 2007.
- 1.4.12 We found good progress had been made in implementing the agreed action plan that resulted from a review of the Council's compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound.
- 1.4.13 We examined the arrangements for the monitoring and receipt of resource transfer funds from NHS Grampian and concluded that they appear to be sound, however there are a number of issues relating to contracts for services that should be addressed within the wider contract letting context.
- 1.4.14 We received information from the auditors of Grampian Health Board in relation to the Aberdeen City CHP. Good progress in developing CHPs has been made. For the Aberdeen City CHP areas for development relate to the impact of the finalisation of the new structures within the Council and further integration relating to devolving responsibility from traditional local authority committees.
- 1.4.15 The systems in operation for the production and publication of SPIs were reliable for all but seven of the 56 indicators and a separate report will be issued in due course.



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our second annual report covering significant matters arising during the course of our audit of Aberdeen City Council for the year ended 31 March 2006.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our long term Strategic Plan. The audit scope and the respective responsibilities of Council members and auditors are set out in appendix I to this report.
- 2.1.3 Broadly the scope of our audit was to
- ❑ provide an opinion on the financial statements in accordance with the standards and guidance issued by the Auditing Practices Board;
 - ❑ review and report on the Council's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council's financial position;
 - ❑ review and report on the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
 - ❑ review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.
- 2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

2.2 Basis of Information

- 2.2.1 External auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.
- 2.2.2 We have issued a number of reports incorporating action plans for 2005/2006. Some of the main points from those reports are summarised in this report.
- 2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Council. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.3 Acknowledgement

- 2.3.1 Our audit for this year has brought us in contact with a wide range of Council staff. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties. We recognise that during the year under audit and in the subsequent period to the finalisation of the accounts and the completion of the audit, the Council had been undergoing further reorganisation and officers were experiencing the challenges such changes bring.



3.1 Audit Completion

- 3.1.1 The target date for submission of the 2005/2006 audited accounts of the Council was 30 September 2006. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met.
- 3.1.2 On 28 September 2006 we met with the Convener of the Standards and Scrutiny Committee as a representative of those charged with Governance to discuss issues arising from the audit and final audit adjustments to the draft accounts were agreed.

3.2 Accounts Certification

- 3.2.1 On 29 September 2006 we issued our audit report expressing an unqualified opinion on the financial statements of the Council for the year ended 31 March 2006. We set out below a summary of the audit certification issues:
- The financial statements present fairly the Council's financial position at 31 March 2006 and income and expenditure during the year.
 - The Council's Significant Trading Operations (STO) met their statutory three year break even target.
 - We were not obliged to make any adverse comment on the Council's Statement on the System of Internal Financial Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

3.3 Financial position

- 3.3.1 The Council's net revenue expenditure of £376.41 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £16.14 million. There is a significant exceptional item which largely caused this deficit and this is explained later in this report.

3.4 Financial Performance

- 3.4.1 Financial performance in one sense can be measured against the financial budget set by the Council in February 2005 for 2005/2006. In this regard the Council's Consolidated Revenue Account (CRA) shows a deficit of £16.14 million against a budgeted deficit of £10.93 million. The Housing Revenue account balanced with income generated matching expenditure, and compares favourable with the budgeted deficit of £1.26 million.
- 3.4.2 A number of factors have contributed to the adverse CRA outturn. The table below highlights the significant factors.

3.4 Financial Performance (Cont'd)

Table 1 – Financial Performance against 2005/2006 budget

Consolidated Revenue Account		£m	£m
Budgeted CRA deficit			10.934
Significant factors			
Compensatory payments	17.582		
Contributions from other funds	(4.036)		
Capital Financing costs	(0.676)		
Council Tax income	(2.603)		
Non Domestic Rates Income	0.740		
Increase in DEM balances	(1.250)		
Pension costs, strain on funds	(1.720)		
Underspends – ward budgets & approved projects	(2.177)		
NPAF underspend	(1.700)		
Property repairs and renewals	1.397		
Social Work Services (net)	2.270		
Others	(2.619)		
			5.208
Adverse variance			
Actual CRA deficit			16.142

3.4.3 To achieve a balanced budget it was proposed and approved that £2.84 million of General Reserve Fund and £2.70 million of the Capital Fund balance be utilised. The base budget spend of £359.98 million set on 10 February 2005 was increased as a result of adjustments to Revenue Support Grant, and commitments brought forward for 2004/2005 and other expenditure approved by the Council during the year, including a review of the budgeted provision for Single Status. As a result of these adjustments the budgeted deficit on the Consolidated Revenue Account was £10.93 million.

3.4.4 An in-year budget deficit of £5.21 million has resulted in an overall deficit of £16.14 million.

3.4.5 The City Chamberlain in her “*General Fund Revenue Budget 2005/06 – Variance Analysis Report*” to the Finance Monitoring Sub-Committee on 22 August 2006 highlighted the main Service over and under spends resulting in the budget deficit of £5.21 million. Key highlights are reported here.

3.4.6 An accrual of £17.58 million has been made in the accounts to 31 March 2006 for compensation payments in respect of equal pay claims. This has been shown as an exceptional charge in the Net Cost of Services and (Surpluses)/deficits on trading undertakings in the Consolidated Revenue Account. Payments to staff in respect of equal pay have been made in 2006/2007.

3.4.7 While there was a net under spend by Services of £6.28 million there were a number of significant factors that contributed toward this outcome.

3.4 Financial Performance (Cont'd)

- 3.4.8 Education under each of the three Neighbourhood Services and Leisure and Learning achieved a net under spend of £5 million. The main reasons for this relates to under spends on devolved budgets, under spends in relation to the National Priorities Action fund and unspent budget funding in relation to the implementation of the McCrone agreement. These under spends have been carried forward to the current financial year and earmarked from the General Fund reserve to cover further commitments.
- 3.4.9 Due to the phasing of actual payments in comparison to budget, the budget for voluntary severance and Council restructuring showed a net under spend of £1.72 million across all Services. This has been earmarked as a commitment from Reserves and Balances for 2006/2007.
- 3.4.10 Social Work under each of the three Neighbourhood Services and under Community Services showed a net over spend of £2.20 million. This was mainly as a result of the cost of packages provided under the Care Management Service, covering home care, residential and nursing care home placements. This matter is the subject of regular "Needs Led" reports to the Community Services Committee and it is anticipated that there will be significant over budget commitments in 2006/2007.

- 3.4.11 The contributions to the Repairs and Renewals fund showed a net over spend of £1.40 million due to additional contributions needed to ensure the repair and maintenance of Council buildings was fully covered. This type of expenditure is normally funded from the "Fund" that is drawn from Services at the start of the year, however, the level of expenditure on repair and maintenance exceeded the original value of funding drawn from Services.
- 3.4.12 A favourable variance of £0.980 million was noted in respect of Council Tax income at the year end as a result of a review of the basis for how the Council's bad debt provision was calculated.

Significant trading operations (STO)

- 3.4.13 In accordance with the new requirements of the Local Government in Scotland Act 2003 (the Act) the Council assessed its trading activities and determined that it had seven STOs, as follows:
- Building Maintenance
 - Environmental Services
 - Road Maintenance
 - Letting of Industrial, Commercial and other Properties
 - Maintenance of Grounds
 - Provision and Management of Car Parking Facilities
 - Provision of Sports and Leisure Facilities
- 3.4.14 However on the 1 April 2005 the managing of Sports and Leisure Facilities merged with the Sports client to form a Service which no longer constitutes a trading operation as this Service is provided on a subsidised basis rather than as a recharge of cost.

3.4 Financial Performance (Cont'd)

Significant trading operations (STO) (Cont'd)

3.4.15 The results of six remaining STOs are disclosed in the Council's Consolidated Revenue Account and associated notes to the accounts. All of these six STOs have met their three-year break-even target. Table 2 below provides the three-year trading performance.

Table 2 – Financial performance against break-even target

Significant trading operations	Financial year			Three-year outturn
	2003/04	2004/05	2005/06	
	£m	£m	£m	
Building Maintenance	0.189	(0.167)	0.227	0.249
Environmental Services	0.092	0.319	1.068	1.479
Road Maintenance	0.245	0.300	0.428	0.973
Letting of Industrial, Commercial & other Properties	1.443	3.507	3.846	8.796
Maintenance of Grounds	0.120	0.010	1.027	1.157
Provision & Management of Car Parking Facilities	2.389	2.753	3.645	8.787
Overall Total	4.478	6.722	10.241	21.441

3.4.16 The STOs are budgeted to produce a surplus in 2006/2007 which would, if achieved, ensure that the rolling three-year breakeven target will be met in 2006/2007.

Housing Revenue Account

3.4.17 The Housing Revenue Account (HRA) balanced in 2005/2006 with the level of income generated matching expenditure and compares favourably with a budgeted use of balances of £1.26 million. The main reason for this variance are savings in respect of capital financing costs through a lower loans pool interest rate, coupled with a lower charge for capital spend incurred during the year and a higher level of receipts being achieved early in the financial year. The balance at 31 March 2006 was £6.60 million of which £2.30 million is committed in 2006/2007. This committed amount includes £0.74 million to support the Housing Revenue Account in 2006/2007, £1.05 million for housing repairs and maintenance costs from orders raised in 2005/06 but for which work did not commence until after 31 March 2006 and £0.34 million for housing investment.

3.5 Pensions

3.5.1 Accounting for the costs of pensions presents a difficult challenge for the Council. The amounts involved are large, the timescales long, and the estimation process is complex and involves many areas of uncertainty that are subject of assumptions. Financial Reporting Standard (FRS) 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

3.5 Pensions (Cont'd)

- 3.5.2 The Council administers two pension funds on behalf of a number of local authorities, public sector bodies and other admitted bodies. Within the Local Government Superannuation Scheme, the Council's estimated share of the pension liabilities at 31 March 2006 exceeded its share of the scheme assets by £138.9 million (2004/05- £166.8 million). In part the beneficial movement in the year is as a result of the gain on valuation of equities reflecting the continuing upward trend in world stock markets.
- 3.5.3 The full actuarial valuation of the Aberdeen City Council Superannuation Scheme was carried out as at 31 March 2005. This highlighted a deficit of £243.4 million representing a funding level of 84% and requiring an average increased employer contribution rate of 233% of employee contributions. A funding plan was set out in the Actuary's report and the two main features of the plan are that contribution rates should be assessed based on the recovery of the deficit over a period of 20 years, and that the employer contribution rate increase is phased in over a period of 3 years.
- 3.5.4 The report recommended the following increased rates in the employers' contributions for the next 3 years as follows; 275% in 2006/2007 rising to 300% in 2008/2009.
- 3.5.5 In addition to the scheme referred to above the Council make contributions into the Teachers Pension Scheme for teaching staff employed by the Council. This scheme is administered by the Scottish Executive. It is not possible to identify any underlying liabilities for this scheme attributable to the Council's employees.

3.6 Accounting treatment of premiums incurred on the early repayment of debt

- 3.6.1 The Council's balance sheet at 31 March 2006 includes £18.325 million relating to premiums paid by the Council incurred on the early redemption of debt which was replaced as part of debt restructuring exercises in previous years. Of this amount £5.669 million relates to restructures where fixed interest rate loans were replaced with similar fixed rate loans (albeit at a lower rate of interest) whilst £12.656 million relates to restructures involving fixed interest rate loans being replaced by lender option borrower option loan agreements (LOBOs).
- 3.6.2 The 2005 SORP allows premiums on the early repayment of debt to be amortised to revenue over the period of the replacement loans when the repurchase is coupled with a restructuring or refinancing of borrowing and the overall economic effect is substantially the same. This treatment is an exception to the standard accounting treatment set out in FRS4 which requires immediate recognition of the premium. The SORP itself does not provide a definition of the term 'overall economic effect', and the SORP guidance notes provide the only extant working definition i.e.
- the size of the authority's overall loan portfolio remains approximately the same, or
 - overall finance cost should remain approximately the same.

3.6 Accounting treatment of premiums incurred on the early repayment of debt (Cont'd)

- 3.6.3 The Council has relied upon this definition and concluded that, on this basis, LOBOs have substantially the same overall economic effect as fixed interest rate loans. The Council has therefore followed the exception allowed by the SORP and is amortising the premium over the life of the replacement loans.
- 3.6.4 Notwithstanding the definition in the SORP guidance notes, in our view, there are strong arguments for concluding that the overall economic effect of fixed rate loan is different from that of a LOBO. However, there is a lack of reliable evidence to conclusively support that view and therefore there is no impact on our opinion on the 2005/2006 accounts in that regard.
- 3.6.5 It will be necessary for us to consider this issue again in 2006/2007. However, the adoption of new accounting standards by the SORP from 2007/2008 will mean that, in the majority of cases, the option to amortise premiums will be removed. It is however intended that regulations or statutory guidance will come into force that will mitigate the impact of this change on council tax.

3.7 Financial pressures

Single Status

- 3.7.1 The Council has carried out a job evaluation exercise as part of Single Status which has still to be agreed with employees and Trade Unions. Implementation of Single Status is expected in August 2007. This should ensure the Council's pay and grading structure takes full account of equality issues across all employee groups within the Council.
- 3.7.2 Approximately 8,500 employees will be affected by Single Status, with the expected cost to the Council currently estimated at £34.6 million over 4 years. The approved 2006/2007 budget included an amount of £7.8 million for implementation of Single Status. It is not anticipated that the full amount will be utilised in 2006/2007 and management anticipate the unused element will be carried forward into 2007/2008 and later years to help meet these costs.

Energy Costs

- 3.7.3 Energy costs have risen significantly over the past year, impacting on both domestic and business users. Fuel costs in 2005/2006 amounted to £10.84 million. The Council has taken a prudent approach and taken account of anticipated energy cost increases in the budgets for 2006/2007 of £12.51 million and 2007/2008 of £13.06 million.

Waste Disposal

- 3.7.4 The Council has a number of projects dedicated to waste management, the majority of which are funded from the national Strategic Waste Fund. Under environmental legislation the Council has responsibility for the ongoing monitoring, maintenance and ultimate capping and reinstatement of three landfill sites.

3.7 Financial pressures (Cont'd)

Waste Disposal (cont'd)

3.7.5 The Council entered a 25-year contract with an external contractor in 2000 for disposal of waste and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. Due to changes in legislation, problems in obtaining planning consent and changes in operational costs arising from this the contractor has submitted substantial claims in respect of additional capital and revenue costs incurred and further claims are expected. Further information is included in the Contingent Liabilities note 8 in the Council's accounts; however no provision has been included for the costs of the claims as it is too early to determine the validity and value of any settlement.

Repairs and maintenance of Roads and Operational Buildings

3.7.6 It is commonly accepted that across Scotland there is a serious backlog of work relating to the repairs and maintenance of roads and operational buildings such as schools, social work homes and office accommodation. In Aberdeen City it is estimated that the roads backlog amounts to £57 million and the backlog of property repairs and maintenance is in excess of £50 million. Should the funding for these works be available, these could only be carried out over a 5 to 10 year period and would require additional annual revenue funding of almost £11 million over the 10 year period.

Free Personal Care

3.7.7 The provision of Free Personal Care (FPC) has been subject to a degree of inconsistency in treatment across local authorities in Scotland. Some authorities have not included the cost of meal preparation as a task coming under the umbrella of FPC, with some authorities charging separately for such services.

3.7.8 The Council does include meal preparation as part of FPC with no separate charge being made. The cost of FPC in 2005/2006 amounted to £12.45 million, comprising £4.60 million for Care Homes and £7.86 million for Home Care. The Care Homes element was over budget by £0.32 million; however, there is no specific budget line for Home Care FPC as this forms part of the wider budget for homecare.

3.8 Reserves and Balances

3.8.1 All Councils hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2006 the fund balances and reserves held by the Council totalled £16.49 million.

Table 3 – Fund balances and reserves

Fund balances and reserves	2005/06	2004/05	Movement
	£m	£m	£m
General Fund	7.824	23.966	(16.142)
Housing Revenue Account	6.598	6.598	0
Amenity Maintenance Fund	0	0.002	(0.002)
City Improvements Fund	0.555	0.574	(0.019)
Queens Links Reinstatement Fund	0.084	0.080	0.004
Lord Byron Fund	0.005	0.005	0
Capital Fund	0	3.769	(3.769)
Insurance Fund	1.003	2.177	(1.174)
Energy Efficiency Fund	0.421	0.368	0.053
	<hr/>	<hr/>	<hr/>
At 31 March 2006	16.490	37.539	(21.049)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

3.8 Reserves and Balances (Cont'd)

- 3.8.2 The General Fund balance has reduced by £16.14 million in 2005/2006 as a result of the deficit for the year leaving a closing General Fund balance of £7.82 million. As reported earlier this was largely due to the settlement of equal pay claims by way of compensatory payments.
- 3.8.3 Commitments against the General Fund balance at the year end total £11.71 million resulting in an over commitment at 31 March 2006 of £3.89 million. A strategy for funding Equal Pay costs, including actions to restore balances to a positive position by 31 March 2008 was approved by the Resources Management Committee on 14 September 2006.
- 3.8.4 The continuing cost pressures in Social Work Services in 2006/2007 referred to earlier are projected to result in an over budget commitment on the Health Care Service of £2.41 million and at least a £2 million over budget commitment on Demand Led Care Services by the year end. However, these are partly offset from savings in staff costs from vacant posts.
- 3.8.5 The budget provision in 2006/2007 for winter maintenance has assumed an average winter, should a severe winter be experienced then this budget may be significantly over spent by the year end.
- 3.8.6 Reports to the respective core and monitoring committees have highlighted the need to identify further corrective actions to address the net over spend and it is hoped that, if implemented, will result in a significant reduction in the net over spends in 2006/2007.

3.8.7 Based on financial projections submitted to the Resources Management Committee on 14 September 2006 assuming no reduction in projected over spends, the General Fund balance is anticipated to be in deficit at 31 March 2007 by £2.50 million.

3.8.8 In recognising the financial position Members have agreed that further corporate reports, service monitoring reports and reports on emerging issues and risks will be submitted to the appropriate committees throughout the year.

Auditors' comments

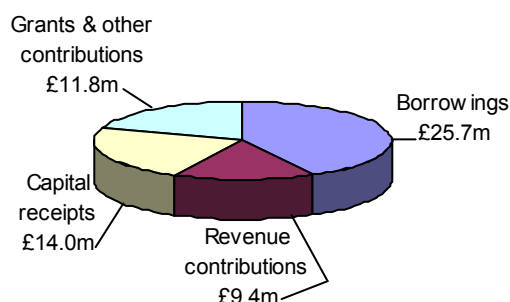
3.8.9 Due to the impact of "Demand Led" pressures the Council's overall financial position is regarded as precarious with the need for tight control over all budgets during 2006/2007. Failure to make savings or meet budgets may result in an overall deficit on the General Fund balance and impact on the Council's service delivery, and the ability to meet current and future commitments. This will impact on the balances available to support any budget deficits in 2007/2008 and 2008/2009. This is also likely to impact on the strategy to reinstate fund balances by 2007/2008. The latest monitoring reports indicated that the contingencies provision is now fully committed.

3.8.10 The Council, through its financial reporting framework at service and corporate levels, is kept informed of the financial position throughout the year and of the action plans currently being implemented to address actual and projected budget overspends. Potential impact on future budgets and medium term financial planning is also clearly considered as part of the Council's wider financial planning. Clearly close scrutiny and monitoring will be of paramount importance over the next year.

3.9 Capital Expenditure

3.9.1 Gross capital expenditure amounted to £60.90 million of which £27.02 million was on the Housing Programme. Funding for the capital expenditure was made up as follows:

**Capital Expenditure Funding Sources
2005/2006**



3.9.2 The Service areas where the most significant capital expenditure was incurred within the General Fund were Arts and Recreation, Education and Roads and Transport. The main projects were HM Theatre upgrade of £3 million, Kingswells new school £2 million and College Street dual carriageway £1 million.

3.9.3 The main item of capital expenditure within the Housing Programme was the Heating System Replacement project of over £7 million.

3.10 Capital Accounting

3.10.1 A number of issues arose regarding the Council's capital accounting arrangements during 2005/2006, resulting in material prior year adjustments as summarised below.

3.10.2 Depreciation previously charged on the land included in Operational Land and Buildings, and assets now categorised as Assets under Construction and Surplus Assets, was subsequently found to have been incorrectly calculated for the last three years, resulting in a prior year adjustment of £25 million.

3.10.3 A further adjustment of £36 million was required as the accumulated depreciation previously charged on the Operational Land and Buildings had not been written back to the Fixed Asset Restatement Account following revaluation of these assets in earlier years. These two adjustments were agreed and included in the draft accounts.

3.10.4 The depreciation charge on Infrastructure Assets had been incorrectly calculated to equal the amount of the debt repaid and contributions and government grants received had been netted off against the additions expenditure for a number of years. This resulted in the depreciation charges being overstated and the value of the assets understated in the Council's draft accounts. A material prior year adjustment of £12 million to reinstate these assets to the correct net book value was agreed (increase in Gross Book Value of £19 million). A further adjustment to the current year of £2 million was also required, which included grossing up the additions expenditure for a contribution of £2 million with a corresponding increase to the Grants & Contributions - deferred account.

3.10 Capital Accounting (Cont'd)

- 3.10.5 The Council's treatment of Capital Financed from Current Revenue (CFCR) was found to be incorrect as capital expenditure considered to be of a revenue nature was classified as CFCR appropriations in the Consolidated Revenue Account and the Housing Revenue Account, rather than being charged as revenue expenditure to the Services. This resulted in significant prior year adjustments of £3 million to the Consolidated Revenue Account and £3.1 million to the Housing Revenue Account with adjustments also to the current year of £2.2 million and £4.3 million respectively.
- 3.10.6 The final accounts, including comparative figures, were adjusted for these two significant audit adjustments and further detail is disclosed within the notes to the accounts.
- 3.10.7 We agreed various other capital accounting audit adjustments and presentational changes to ensure that the main accounting and disclosure requirements have been met in the audited accounts. We discussed the need to improve accounting and disclosure requirements in relation to capital accounting issues with management and intend to include recommendations to assist management and the audit process in our Year-end Management Letter.
- 3.10.8 The Council's housing stock was revalued at 1 April 2005 which resulted in a net increase of £25 million to the opening asset value in the accounts with a corresponding entry to the Fixed Asset Restatement Account.

- 3.10.9 The main asset disposals during the year were council dwellings with over 500 houses being sold generating proceeds of approximately £14 million.
- 3.10.10 In response to funding issues and the need to restore General Fund balances reported at various Council meetings over the past year, following a Council decision to market for sale significant investment assets in the Tullos industrial estate portfolio a transfer of £30 million to Surplus Assets was included in the accounts. These assets have only recently been sold and the proceeds of £59.3 million should help alleviate funding pressures and be used to restore fund balances in line with the Council's stated strategy and policies.

3.11 PPP / PFI

- 3.11.1 The Council has a schools PPP project, the 3Rs (Reorganise, Renovate and Rebuild). This involves six new build schools and the refurbishment of two others. Following the "revise and confirm" stage, when companies were asked to refine their bids and provide more detail on how they would undertake the contract, updated submissions have been received. The bids have been considered and evaluated by the 3Rs Project Team, the Evaluation Panel and the 3Rs Project Board. The results were reported to the meeting of the Full Council on 25 October 2006 and a preferred bidder has been identified for the project.

3.12 Group accounts

- 3.12.1 The 2004 SORP requires authorities to prepare a full set of group accounts in addition to their single-entity accounts where they have a material interest in other entities (excluding the Pension Fund). Full implementation of the 2004 SORP requirements was required for 2005/2006 including comparatives for the year ended 31 March 2005.
- 3.12.2 The Council relied upon the transitional arrangements in 2005 which allowed for abbreviated Group Accounts to be prepared where the Council had material equity holdings. The Council had an 81% holding in the AECC Group as at 31 March 2005 and accordingly produced Group Accounts to incorporate this Group's results.
- 3.12.3 The Council undertook a review of its involvement with outside and related parties and formed the view that it has material interests in the following entities:

Table 4 – Group entities

	ACC Control	
	2004/05	2005/06
Subsidiaries		
Aberdeen Exhibition and Conference Centre	81%	100%
Mountwest 343 Ltd	81%	100%
Common Good	100%	100%
Trust Funds	100%	100%
Associates		
Grampian Joint Fire and Rescue Board	49%	49%
Grampian Joint Police Board	48%	48%
Grampian Valuation Joint Board	39%	39%

- 3.12.4 The Group's net revenue expenditure of £401.33 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £18.43 million
- 3.12.5 The Group Balance Sheet shows the Total Assets less Liabilities to be £673.19 million, compared with the Council's single entity Balance Sheet total of £936.12 million. This is mainly due to the Share of the Net Liabilities of Associates including the Council's share of the pension liabilities of the Joint Boards of £334 million. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.

4.1 General Governance

- 4.1.1 2005/2006 has seen the implementation of a major reorganisation of the strategic and operational structures of the Council which began in 2004/2005. The reorganisation has continued into 2006/2007. The Committee structure has not been amended at this stage, but consideration of this is planned in conjunction with changes that will take place following the 2007 elections.
- 4.1.2 The reorganisation is designed to enhance service delivery through a further strengthened Neighbourhood system which works closely with local areas.
- 4.1.3 There was significant change in the make-up of the senior management team during the year, however the Chief Executive and the management team ensured good hand over and transitional arrangements were in place to minimise the risk inherent in periods of change. The first tier posts were all occupied by 31 March 2006, prior to the departure of retiring second tier officers.

4.2 Councillor Information

Members' Training

- 4.2.1 Members receive a handbook that includes the Council's financial regulations and standing orders, the Members Code of Conduct and the Members' Allowance scheme.

- 4.2.2 Induction is provided for all new Members and there is a voluntary programme of development events drawn up each year. Some events are delivered jointly with Aberdeenshire Council. The programme is designed to ensure Members have access to information to keep them up to date with current legislation, policy and good practice, and covers such items as Best Value and IT skills. Individual requests for training are also accommodated where practical. There has been some slippage in the delivery of the 2005/2006 programme due to the Members' involvement in the restructuring process. Planning is underway for the induction and other training that will be required following the local elections in 2007. Many elected Members have requested personal development plans.

Elected Members serving on arms-length bodies

- 4.2.3 During the year a review of Council representation on external bodies was completed to consider the reasonableness of Elected Member involvement and steps have been taken to improve the position in relation to the risks associated with Elected Members serving on arms-length bodies. Following consultation with external bodies arrangements for indemnity cover have been assessed and action taken to strengthen this if appropriate.

4.3 Preparation for 2007 Elections

4.3.1 An Organisational Task Group has been set up to consider the implications of the 2007 local elections. This group meets regularly and reports to the Policy and Strategy Committee and the Council as appropriate. In preparation for the 2007 elections workshops have been held with members to consider options for the way forward in relation to Multi-Member Wards and the requirement to adjust the Committee structure to align with the new service structure. In particular the introduction of Area Committees is being considered. Members have been involved throughout the preparation period. Mock elections involving ward councillors are to be held in all secondary schools in November 2006 with a view to encouraging interest, particularly in the new voting method. An informal briefing will be held in early December for prospective candidates to inform them of the workings of the Council.

4.4 Audit Committees - Effectiveness

4.4.1 The Standards and Scrutiny Committee has continued to function well, considering outcomes from both internal and external audit work and information from other sources. The committee has requested additional work to be undertaken to provide further information on particular topics or early assurance that action plans have been implemented and are having the desired effect.

4.4.2 Last year we made a recommendation relating to training and committee involvement, designed to further strengthen the working of the Committee. During the year four briefings have been held for members of the committee and more are planned for the future, particularly when the new Council is elected. The draft Corporate Governance Statement was presented to the committee in May and the final will be presented following certification of the accounts.

4.4.3 Due to the practical difficulties of arranging an additional Committee meeting to accommodate consideration of SAS 610 issues, issues arising from the audit, which are required to be discussed with those responsible for Corporate Governance prior to completion of the audit report, were discussed at a meeting with the Convener of the Standards and Scrutiny Committee as a representative of the Committee on 28 September 2006.

4.4.4 We previously made recommendations regarding training for Members of the Standards and Scrutiny Committee. It has now been decided to carry this forward as part of the package of induction training for Standards and Scrutiny Committee Members following the May 2007 election.

4.4.5 We also recommended that VFM audit arrangements be reviewed. This has also been carried forward to be reviewed by the new Standards and Scrutiny Committee.

4.4 Audit Committees - Effectiveness (Cont'd)

4.4.6 Recommendations

Planned training for elected Members in order to improve the operation of the Standards and Scrutiny Committee and strengthen its role in terms of the Council's local code of corporate governance should be implemented as part of the package of induction training for Members, after the May 2007 elections.

4.4.7 The planned review of VFM audit arrangements should be implemented after the May 2007 elections.

4.5 Reliance on Internal Audit

4.5.1 To minimise audit duplication we liaise with Internal Audit during our planning to identify areas of their work that we can place reliance on. For 2005/2006 we agreed to place reliance on work covering a number of areas. Following review of the files relating to each of the reports we concluded that we could place reliance on the work and findings of Internal Audit.

4.6 National Fraud Initiative

4.6.1 The National Fraud Initiative (NFI) in Scotland is Audit Scotland's data matching exercise that runs every two years in line with the Audit Commission's NFI timetable. The NFI is designed to help participating bodies to identify possible cases of fraud and detect and correct any consequential overpayments from the public purse.

4.6.2 Audit Scotland's report on NFI 2004/2005, published in May 2006, highlighted the main issues arising in Scotland and noted that fraud, overpayments and savings totalling £15.10 million had been found from the exercise. This figure includes £0.32 million of housing benefit overpayments and savings identified by the Council. The Audit Scotland report highlighted the Council as one of four councils that had achieved particularly good results in relation to housing benefit overpayments.

4.6.3 Data for NFI 2006/2007 is due to be submitted for processing by mid October 2006 and we have confirmed that the Council is on track to meet this deadline. The mandatory datasets for 2006/2007 are: housing rents; payroll (including pensions payroll); housing benefits; and full-time students. New data matching areas, outside the core mandatory elements of NFI, have also been included for 2006/2007 covering: creditors' payment history and standing data; parking permits and concessionary travel passes; insurance claims; private care home residents; and market trader and taxi driver licences. Submission of this data is optional, dependent on two key requirements: reasonable quality data; and assessment of risk in these areas. The Council has submitted data for all the voluntary data sets except market traders and was involved in voluntary submission of creditors test data earlier in the year.

5.1 Strategic Planning

- 5.1.1 The community plan “*aberdeen futures – A Social, Economic and Environmental Design for Our City*” was published in 2001 and sets out the vision for the City of Aberdeen in 2010. The plan is currently being reviewed, taking into consideration recommendations on the process from an external consultant. The review, which is driven by the Aberdeen City Alliance (TACA), is due for completion in December 2006.
- 5.1.2 Local communities have been engaged in the planning process through the involvement of Community Councils in developing the Neighbourhood Community Action Plans. Links between the Community and Corporate Plans are in place but work to develop Service Plans has been on-going throughout the year and into 2006/07.
- 5.1.3 Community planning now forms part of the job-description of all second and third tier officers. It has been recognised that training is needed to help officers deliver community planning in their specific areas and this will be addressed through the corporate Performance Appraisal Scheme.
- 5.1.4 The Council has forged productive alliances and improved partnership working with neighbouring authorities and other relevant public bodies through the North East Scotland Joint Public Sector Group (NESJPSG). High level strategic priorities were published in November 2005. The Council identified that more needed to be done to engage elected members in this process and a series of workshops has been undertaken with Elected Members, NESJPSG members and council officers. The outcome from these workshops will be used to take this area forward; the key issue identified is governance.
- 5.1.5 An initiative is planned to strengthen key relationships through linking senior officers with 70 key organisations that have been identified in the City. The initiative is designed, among other things, to develop an understanding of strategic issues.
- 5.1.6 We identified at the beginning of the year that there are challenges in coordinating local and national priorities, and that there was scope to improve the way the Council engaged with Communities Scotland and Scottish Enterprise Grampian. Work has been ongoing throughout the year on joint projects that the Council is confident have improved relationships with both these partners. As a result the Scottish Housing Quality Standard Delivery Plan was submitted to the Scottish Executive on 18 August 2006 and other joint projects such as Regeneration/Masterplanning have been taken forward.

5.2 Performance Management

Monitoring

- 5.2.1 During the year the Council introduced a new Performance Management System to provide a single format for performance reports. There is still some work to do to ensure that all of these are fully populated with all the information they should contain.
- 5.2.2 There are monthly meetings of the Extended Corporate Management Team meeting as a Performance Management Board. Service Management Teams consider their own Performance Management Report prior to this. The reports cover such things as statutory performance indicators (SPIs), the Council's own key performance indicators (KPIs) and other critical issues for the service such as absence monitoring, overtime, complaints etc. The Service Performance Management Reports are the first item on Service Committee agendas. It is planned to focus more on exceptions in future and to tailor the level of detail to suit the needs of the forum considering the report.
- 5.2.3 Development of effective linkage between the performance data reported to the management teams and committees with the daily management of the service delivery has been under development during the year through the "critical numbers" initiative at neighbourhood level.

- 5.2.4 The Council uses the Initiatives Management System to manage performance and all "key tasks" are included on this database. Full population of this database was achieved in August 2006. The Key Tasks list is used as a framework for agendas and meetings with Members, MPs and MSPs and this was the main tool for management prior to completion of the Initiatives database. Use is also made of Citistat, which the Council have found particularly useful in relation to Voids.

Resources management and planning

- 5.2.5 The Council has identified significant demand led cost pressures within Health & Care and Learning and Leisure type services such as care management and spot care purchases and residential school placements. Major Social Work demand led pressures are reported to the Social Work Commissioning Board. This proactive approach enables the Council to take positive steps to achieve other offsetting savings to reduce the impact of these over commitments.
- 5.2.6 On 30 March 2006 the Resources Management Committee approved the disposal of ground leases on industrial estates designed amongst other things to meet the cost of retrospective compensatory payments under an equal pay agreement. This was in response to a decision taken at the Council's Budget meeting on 9 February to come forward with a package of measures to raise funding for the potential settlement.

5.2 Performance Management (Cont'd)

Resources management and planning (Cont'd)

- 5.2.7 The Council has a three year financial plan and has looked beyond the three year position for Capital expenditure, focussing on Housing and non-housing spending. The budget setting and monitoring processes are coherent and planned, but budgets have not previously been explicitly linked with service plans. This is an area that is currently being developed for 2007/2008 onwards.
- 5.2.8 The Council is in the process of reviewing all assets, linking this with the development of a Resources Management Strategy which will be informed by the outcome of strategic planning and work on service plans. A partial stock transfer of just over a third of the current housing stock is being considered and the Marischal College Project is intended to rationalise the Council's corporate accommodation and ensure the use of new technology is maximised to deliver smarter customer focussed services.

5.3 Risk Management

- 5.3.1 There is no corporate risk management group and no specific Risk Management Officer within the Council to drive forward the risk management agenda. The Risk Management Strategy assigns the overarching responsibility for risk management to the Chief Executive and the CMT. Responsibility for minimising risk within their services is aligned to Corporate Directors and Service Management Teams (SMTs).

- 5.3.2 Previously the co-ordination role for risk management within the Council rested with the Assistant Director for Finance and ICT. During financial year 2005/2006, the CMT decided that this responsibility should be transferred to the Financial Services Manager and this was agreed by the Standards and Scrutiny Committee on 22 February 2006. A revised Risk Management Strategy was submitted to the Standards and Scrutiny Committee in February 2006 to reflect this transfer of responsibility.
- 5.3.3 The Council has recognised that there is scope for improvement in developing a risk management culture across the authority, as evidenced by the disclosure in the 2005/2006 Statement of Internal Financial Control. Strategic Risk Reviews will now be conducted annually, in order to inform the risk assessment element of the Service Planning process for 2007/2008 onwards. The completion of our 2005/2006 interim review of the Council's risk management arrangements has been delayed due to difficulties in obtaining the required information from services. The information has now been received and the work will be reported in November 2006.

5.4 Efficient Government

Planned efficiency savings

- 5.4.1 The Council expects to generate “cashable” savings of £4.3 million and time releasing savings of £0.20 million in 2006/2007. For 2007/2008 the figures are £5.84 million cashable savings and £0.20 million time releasing savings. From April 2006 the Council began to report progress in delivery of efficiency savings using the COSLA reporting format that will identify savings against the national Efficient Government themes. Further work is required to allow the monitoring system to underpin efficiency claims to confirm no loss of service quality and track savings to ensure deployment in frontline services. The Council plans to use a monitoring system currently being developed by consultants appointed by COSLA and the Scottish Executive to address this in future.
- 5.4.2 The Council can demonstrate commitment to identification of efficiency savings as part of the wider change programme and the Continuous Improvement Programme. Guidance for Management of Continuous Improvement Projects is in use, however there is no specific guidance on how to classify and calculate proposed efficiency gains. This has been discussed at recent Director of Finance meetings to ensure consistency of approach across Scotland and a template is in the course of development which will provide guidance on categorisation and classification of cash and time-releasing efficiency gains. The Council plans to make use of the template once it is finalised.

- 5.4.3 The recent Council restructure was designed to streamline bureaucracy and to allow service redesign delivering more responsive frontline services and empowerment of frontline staff. The Council has an agreed 5 year programme of Best Value service reviews driven by an assessment of areas with most scope for efficiency gains and service improvements. The Council is making good progress with Aberdeenshire Council in developing a joint procurement service which will meet most of the requirements of the McClelland Report on joint procurement. A recent study by Cap Gemini confirmed the potential to achieve significant savings in this area.

- 5.4.4 Recommendation.**
Work in hand to take forward outstanding issues to improve classification of savings and monitoring of efficiency claims should be actively pursued.

5.5 Best Value Audits Follow-up Progress

- 5.5.1 No transitional Best Value work has been carried out at the Council this year as a full Best Value review began in September, and is planned to be reported early in 2007.

5.6 Progress on Following the Public Pound

- 5.6.1 COSLA and the Accounts Commission jointly published the 'Code of Guidance on Funding External Bodies and Following the Public Pound' in 1996 (the Code). This set out the principles of best practice when councils establish significant funding relationships with arms-length and external organisations (ALEOs). In December 2005 a national report 'Following the Public Pound – A follow-up report' was published by Audit Scotland, following work undertaken in all Councils in Scotland. In conjunction with this work a local follow-up report for the Council was issued on 20 September 2005 (External Audit Report 2005/15). The report included a number of recommendations to improve systems, however the overall conclusion was that the corporate procedures in place address the core requirements of the Code and provide a detailed framework for the financial checks to be applied for different levels of funding. We have followed up implementation of the agreed action plan included in that report and our detailed findings have been reported separately in External Audit Report 2006/10.
- 5.6.2 We found that good progress has been made in implementing the agreed actions from our previous report with 14 of the 16 agreed recommendations contained in the original action plan now fully implemented. Two recommendations are partially implemented, pending receipt of the relevant information required from each of the Services to populate the central register that has been developed. Where further actions are required for full implementation the additional work is planned within acceptable timeframes.

5.7 Joint Working with Grampian Health Board

- 5.7.1 We planned to review the Council's arrangements for dealing with resource transfer monies from Grampian Health Board, and to consider the stage of involvement that the Council has with the development of the new Community Health Partnerships (CHPs)

Resource Transfer

- 5.7.2 Introduced in 1992, Resource Transfer is the transfer of funds from Health Boards to local authorities to help support the provision of community based care packages primarily for people discharged from long-stay hospital accommodation. It involves a significant amount of funding. Initial Resource Transfer guidance envisaged that Resource Transfer amounts would be permanently transferred from Health to Local Authority control. This change has not taken place and consequently the Board's Accountable Officer retains accountability for the use of all Resource Transfer funds, whilst provision of the service rests with the Council. There is therefore a need to ensure that sound accountability arrangements are in place and operating well at Health Board and Council levels, to ensure value for money is obtained in the use of resources, and that Health Board Accountable Officers can properly discharge their responsibility for transferred funding.
- 5.7.3 Our overview was undertaken through discussion with council officers and examination of relevant documents.

5.7 Joint Working with Grampian Health Board (Cont'd)

Resource Transfer (Cont'd)

5.7.4 The Council and the Health Board had several contracts in place in respect of £12.546 million of resource transfer money for 2005/2006. In addition to the resource transfer contracts there is income from the Board for other services such as an advocacy service, mental health support work and community services, totalling £3.923 million in 2005/2006.

Findings

5.7.5 The resource transfer contracts are regularly monitored, with a quarterly return made to NHS Grampian regarding residential placements occupancy and capacity.

5.7.6 No Council committee receives specific information about resource transfer contracts; they are monitored within the Council's budget monitoring framework.

5.7.7 The agreements with NHS Grampian are in perpetuity, with an uplift negotiated annually.

5.7.8 Payments are received monthly from NHS Grampian, based on the contract values and subject to the provision of outcome information being provided by the Council to NHS Grampian.

5.7.9 Service provision is mostly through annual contracts with voluntary and private sector organisations, although eg, the Aberdon dementia unit is part of a Council residential home.

5.7.10 The national negotiations of care home fees and national Care Home Standards has impacted in this area and therefore several contracts are not in place, with continued provision being made through letters of agreement and roll-on of old contracts.

Conclusion

5.7.11 The arrangements for the monitoring and receipt of resource transfer funds from NHS Grampian appear to be sound, however there are a number of issues relating to contracts for services that should be addressed within the wider contract letting context. Internal audit has recently published a report on Social Work Service Agreements which contains a number of recommendations to improve the system and which concluded "that a satisfactory conclusion cannot be reached".

5.7.12 Recommendation

Contracts for provision of services under resource transfer agreements should be finalised as soon as possible.

5.7 Joint Working with Grampian Health Board (Cont'd)

Community Health Partnership (CHP)

- 5.7.13 Community Health Partnerships are statutory bodies established under the NHS Reform (Scotland) Act 2004 and the Community Health Partnerships Regulations 2004. While these bodies are an integral part of the Health Board, their purpose is to provide a focus for the integration of primary and specialist care with social care. To achieve this CHPs, amongst other things, must work in partnership with local authorities.
- 5.7.14 Grampian Health Board has three CHP committees, one of which is aligned to the Aberdeen City area. Audit Scotland is the auditor of Grampian Health Board and during 2005/2006 they undertook a high-level review of the Board's CHP arrangements. Under the Code of Audit Practice, which encourages auditors to work together to minimise duplication of audit effort, we have received information relevant to the Aberdeen City CHP from their audit.
- 5.7.15 The Aberdeen City CHP (the CHP) was established as a shadow body in April 2004, prior to becoming fully operational on 1 April 2005 following formal ministerial approval of the CHP scheme on 29 March 2005. The CHP is one of three CHP sub-committees of Grampian Health Board's Performance Governance Committee. Some services are hosted by one of the three CHPs on behalf of the others. Aberdeen City CHP hosts Sexual Health and Combined Children's services. Mental Health Services are hosted by the Aberdeenshire CHP.

- 5.7.16 The CHP is the Health and Social Care Challenge Forum of the Community Planning Partnership, with four joint working committees relating to the work of the CHP. Membership of the CHP partnership is the same as the CHP committee, with a management team in charge of day to day operation of business, reporting to the CHP sub-committee.
- 5.7.17 The current organisational structure in the Aberdeen City CHP is a joint model, with a more integrated structure being pursued. In March 2006 the Council approved a further joint post, that of Joint Futures Manager, and this will introduce single management over a two-year period for care groups under care of the elderly, mental health, learning disability and substance abuse.

Conclusion

- 5.7.18 The Health Board auditors concluded that Grampian Health Board is making good progress in developing CHPs and noted that the development was building on good long-standing joint working arrangements developed around Joint Futures. Further development is ongoing; for Aberdeen City the areas for development relate to the impact of the finalisation of the new structures within the Council and further integration relating to devolving responsibility from traditional local authority committees. It has already been identified that the planned review of the Council's committee structure will include consideration of the role of the CHP committee.

5.8 Statutory Performance Indicators (SPIs)

- 5.8.1 The 2005/2006 return to Audit Scotland for the Council SPIs was made by the 31 August deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all but seven of the 56 indicators. Systems for collection of seven indicators were reported as unreliable (Adult Social Work - Respite Care, Community Care Assessments and Homecare/Home Helps, Housing - Response Repairs, Cultural and Community Services – Attendance pools and Attendance other indoor sports and leisure facilities and Education and Children’s Services - Respite Care). Three of the systems that were found to be unreliable were also unreliable in 2004/2005 and one system was a new indicator for 2005/2006.
- 5.8.2 We shall be submitting a report arising from our work on the SPIs designed to agree with management areas where improvements can be made to the collection and publication of date. Management will prepare an action plan with proposed timescales for the implementation of changes.

Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
4.4.6	Planned training for elected Members in order to improve the operation of the Standards and Scrutiny Committee and strengthen its role in terms of the Council's local code of corporate governance should be implemented as part of the package of induction training for Members, after the May 2007 elections.	CIPFA are to be brought into provide appropriate training and guidance for new Standards and Scrutiny Committee Members after the forthcoming election in May 2007. It is anticipated this will be achieved by 30 September 2007.	√	Internal Audit Manager	30 September 2007
4.4.7	The planned review of VFM audit arrangements should be implemented after the May 2007 elections.	A review of value for money issues will also be carried forward to the new Standards and Scrutiny Committee.	√	Internal Audit Manager	30 September 2007
5.4.4	Work in hand to take forward outstanding issues to improve classification of savings and monitoring of efficiency claims should be actively pursued.	This will be taken forward in conjunction with other Scottish local authorities.	√	City Chamberlain	31 January 2007
5.7.12	Contracts for provision of services under resource transfer agreements should be finalised as soon as possible.		√	Chief Social Work Officer	30 June 2007



Appendix I - Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Council and the City Chamberlain's responsibilities for the Financial Statements are set out on page 86 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Council's Statement on the System of Internal Financial Control complies with the requirements of the Code of Practice for Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (the SORP) and report any exceptions. We are also required to review the statement and report if it is misleading or inconsistent with other information we are aware of from our audit. The Statement on the System of Internal Financial Control is set out on pages 89 to 92 of the audited accounts. We are not required to give an opinion on the effectiveness of the Council's internal financial controls.



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
Para 5.1, page 22	<p>Revenue Account Outturns and Carry Forward Balances</p> <p>R1 Members should continue to monitor and consider the full impact of the various reported projected over budget commitments, earmarked commitments and the impact of Single Status/Job Evaluation on the delivery of services over the next three years and the projected impact of the Modernising Employment Agenda and Equal Pay issues on the retained balances.</p>	Information will continue to be updated and provided on a regular basis to members at each committee cycle. Services & CMT will continue to be consulted on in relation to providing this information.	√	Corporate Management Team (CMT)	Ongoing with regular reporting to members on each committee cycle.	<p>As part of the cycle of committee meetings regular reports are provided to the Finance Monitoring Sub Committee and to the Community Services Committee on Social Work demand led pressures e.g. care of older people and childcare.</p> <p>Separate reports were also submitted to the Resources Management Committee outlining the impact of single status/job evaluation including the impact this would have on working balances with a strategy on the disposals of assets approved to meet the costs in relation to compensatory payments for the 3C's.</p> <p>A recent report to the Council meeting of 28 June 2006 also outlined the initial projected position and balances taking into account the consequences of the compensatory payments.</p> <p>Feedback is also given to the Corporate Management Team (CMT) & the Extended Corporate Management Team (ECMT) through the Performance Management Board Meetings.</p>



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
Para 5.3, page 24	<p>Significant Trading Operations</p> <p>R2 The Council should ensure that it continues to monitor and review the current Significant Trading Operations, and perform an annual review to see if any other trading operations should be classed as significant.</p>	This matter will be regularly reviewed by the CMT.	√	Corporate Director for Resources Management and consultation with CMT	Ongoing	<p>During 2005/06 it was determined and reported to committee that with effect from 1 April 2005 that the managing of sports & leisure facilities merged with the sports client to form a service which no longer constitutes a trading operation and therefore should no longer be considered as a significant trading operation.</p> <p>A further examination will be undertaken in September/October 2006.</p>
Para 5.3, page 24	<p>R3 The Council should ensure that monitoring procedures are implemented to ensure that any potential aggregate losses are foreseen in order that appropriate remedial action can be taken to meet the breakeven target.</p>	The activities in which losses were sustained would have been in surplus but for the effects of FRS17 pension adjustments that were not quantified until after the year end and arose because of a change in the discount rate applied in the calculations by the actuaries.	√	Corporate Director for Resources Management	Ongoing	Regular reports regarding forecast out-turns for significant trading operations were provided at each cycle of committee meetings to the Finance Monitoring Sub Committee during 2005/06 and no losses were foreseen on significant trading operations (STO's)



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
Para 5.3, page 24	R4 The Council should ensure that all costs, including FRS 17 pension costs, are taken into account when calculating STO's profits/losses and refunds to client services. The refund policy should be reviewed to ensure that only significant profits made from charging client services are returned, in accordance with the regulations and guidance.	See comments in R3 above. The refunds/(charges) to Client Services were based on the cash position rather than notional. On that basis only significant profits/losses were returned to Client Services. The refund policy will be reformed.	√	Corporate Director for Resources Management	30 June 2006	A review of STO's profits/losses is currently being undertaken in relation to the recommendation made and the refund policy.



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
Para 5.7, page 27	<p>Accounting for Tangible Fixed Assets</p> <p>R5 Members should continue to monitor and consider the full impact of the various reported under-spends, slippage and carry forward in the capital programmes on the delivery of corporate objectives and service delivery over the next three years and the projected impact of reduced borrowing requirements on the loans fund charges and level of cash requirements.</p>	<p>Progress on Capital Programmes and proposed actions in relation to underspends, slippage and project carry forwards will continue to be reported as part of regular capital monitoring reports provided to members at each committee cycle. Similarly, the position on borrowing, loans fund charges will also be updated and reported as part of monitoring reports and Treasury Management strategy reports.</p>	√	Corporate Director for Resources Management	Ongoing	<p>Regular monitoring reports on the capital programme are provided to the Finance Monitoring Sub Committee at each cycle of committee meetings. The Council's Treasury Management strategy report was submitted to the 30 March 2006 meeting of the Resources Management committee</p>



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
Para 5.11 Page 29	AECC R6 The Council should continue to monitor the finances and results of AECC against an updated Business Plan, reviewing Profit and Loss, Balance Sheets and Cash Flows and ability to attract high profile international conferences and events to the City.	Regular reports will continue to be provided to the appropriate Council committees.	√	Corporate Director for Resources Management/ Corporate Director for Strategic Leadership.	Ongoing	Regular reports are provided to Committee with the most recent being provided to the Resources Management Committee meeting of 6 June 2006 regarding provisional out-turn results for AECC. A finance monitoring report was also provided to the 10 January 2006 meeting of the Finance Monitoring Sub Committee, as part of Following the Public Pound.
Para 6.5, page 37	Standards of Conduct, Integrity and Openness R7 Consideration should be given to the issues of training for elected members and the review of VFM audit arrangements in order to improve the operation of the Standards and Scrutiny Committee and strengthen its role in terms of the Council's local code of corporate governance.	Training will cover the system of Internal of Financial Control which will be the responsibility of the Council's Chief Internal Auditor and for the non-financial aspects of corporate governance, the Office of Chief Executive will provide assistance	√	Corporate Director for Continuous Improvement	30 September 2006 (Time frame revised to take account of 2007 elections – see 2005/2006 action plan)	CIPFA are to be brought into provide appropriate training and guidance for new Standards and Scrutiny Committee Members after the forthcoming election in May 2007. It is anticipated this will be achieved by 30 September 2007. A review of value for money issues will also be carried forward to the new Standards and Scrutiny Committee.

