



HENDERSON LOGGIE

**Aberdeen City Council**

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

**2006/07**

**External Audit Report No: 2007/09**

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# Executive Summary

## 1.1 Introduction (Section 2, page 5)

- 1.1.1 We are pleased to submit our third annual report as external auditors of the Council. The report highlights key issues grouped under three distinct headings of financial, governance and performance.
- 1.1.2 During the course of our audit we have continued to build an effective working relationship with officers from across all of the Council's services.

## 1.2 Financial (Section 3, page 6)

- 1.2.1 The Council achieved the statutory deadline for the submission of its accounts for audit. The financial statements presented for audit had been prepared using the new format introduced by the 2006 SORP. The audit was completed with the issue of an unqualified audit opinion on 28 September 2007. The Council failed to meet the statutory three-year breakeven target for the building maintenance significant trading operation (STO). All other STOs met this target.
- 1.2.2 On 28 September 2007 we issued our ISA 260 report and met with the Convenor of the Continuous Improvement Committee as a representative of those charged with governance to discuss issues arising from the audit and the final audit adjustments to the draft accounts were agreed.
- 1.2.3 We were not obliged to make any adverse comment on the Council and its group's Statement on the System of Internal Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

1.2.4 Twenty-one significant potential audit adjustments were identified during the course of our audit of the financial statements. The Council agreed to adjust the accounts for all but one of the significant audit adjustments. A further eleven non significant adjustments were also agreed to ensure that the cumulative value of unadjusted errors was below our level of significance and the financial statements were amended. Details of the agreed audit adjustments were highlighted in our ISA 260 Report.

1.2.5 The Council's net operating expenditure of £381.176 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £11.728 million reported in the Income and Expenditure Account. After the necessary adjustments to establish the movement on the General Fund Balance for the year were made the General Fund Balance decreased by £0.611 million (2005/06 – decrease £16.142 million). The balance on this fund carried forward at 31 March 2007 is £13.811 million.

1.2.6 The Housing Revenue Account made a surplus of £1.7 million which compares favourably with the budgeted deficit of £0.741 million.

1.2.7 An in-year budget deficit of £11.846 million resulted in an overall operational deficit of £20.981 million. £15.281 million was transferred from the Capital Fund to the General Fund to cover debt principal repayments. Capital expenditure previously charged directly to the HRA was financed by a contribution from the Capital Fund thereby allowing a further transfer of £15.386 million to the General Fund, leaving no working balance in the HRA.



# Executive Summary

## 1.2 Financial (Section 3, page 6) (Cont'd)

- 1.2.8 Commitments against the General Fund balance at the year-end total £8.235 million resulting in an uncommitted balance at 31 March 2007 of £5.576 million.
- 1.2.9 The City Chamberlain reported in her “2007/08 General Fund Revenue Budget Monitoring Report” to the Resources Management Committee on 9 October 2007, that the projected outturn for 2007/08 shows an over-commitment of £14.639 million. At October 2007 the Council has identified £1.3 million of savings and £6.3 million of balance transfers to fund projected over-commitments for 2007/08. This leaves £8.257 million of projected over-commitment for which potential actions to close the projected budget gap are being progressed. Sustainable strategies are being sought to bring the Council’s spending back into line and ensure financial stability in the future.
- 1.2.10 Within the Local Government Superannuation Scheme, the Council’s estimated share of the pension liabilities at 31 March 2007 exceeded its share of the scheme assets by £101.7 million (2005/06 - £138.9 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.
- 1.2.11 The Council has carried out a job evaluation exercise as part of Equal Pay and Modernisation which has still to be agreed with employees and Trade Unions. Implementation of Equal Pay and Modernisation is expected in January 2008. The expected cost to the Council is currently estimated at £34.6 million over 4 years. The anticipated cost in 2007/08 is £6.382 million which is to be funded from the Council’s uncommitted balances.
- 1.2.12 During the year, the Council disposed of significant investment assets in the Tullos industrial estate portfolio. The net proceeds of £59.946 million have been credited to the Capital Fund. £6.014 million and £7.055 million were utilised to meet capital expenditure on the General Fund and the HRA respectively. A further £15.281 million was transferred to the General Fund to cover capital debt repayments. The balance on the Capital Fund carried forward at 31 March 2007, including interest, was £32.369 million.
- 1.2.13 The Council anticipates reaching commercial and financial close on its new schools PPP project; Reorganise, Renovate and Rebuild (the 3Rs Project), at the end of 2007 when the contract is expected to be signed with the NYOP Education Consortium to deliver in excess of £110 million of investment in its school estate. The 3Rs project involves the construction of nine new, and refurbishment of two existing, schools.

## 1.3 Governance (Section 4, page 17)

- 1.3.1 In May 2007 the management and political governance structures of the Council were re-aligned.
- 1.3.2 In June 2007 the Council approved its policy statement “Vibrant, Dynamic & Forward Looking”. Performance measures have been identified to monitor its implementation. The Corporate Plan is currently being reviewed with planned finalisation at the end of 2007 to coincide with the current Community Plan review.



# Executive Summary

## 1.3 Governance (Section 4, page 17) (Cont'd)

- 1.3.3 Following production of draft plans for 2006/07, approved service plans have been produced for all services for 2007/08 and the CMT is undertaking quarterly reviews to monitor progress against the plans. The planning framework is still fairly new and further work is required to ensure that all the plans link properly together and can be efficiently and effectively monitored.
- 1.3.4 In the period following the elections the Council carried on the business of the previous committee structure for the first few months through meetings of the full Council dealing with the work of all committees.
- 1.3.5 Immediately following the May 2007 elections training for all Members was delivered covering a wide range of topics including the Code of Conduct, financial matters, ICT awareness, standards and scrutiny and Best Value. Further training sessions are planned for the remainder of 2007. Personal Development Plans are currently being developed for all Members.
- 1.3.6 The Community Plan is currently being revised by The Aberdeen City Alliance (TACA) with support from the Improvement Service with the aim of it being finalised by spring 2008. TACA has reviewed the Audit Scotland report on community planning and has an action plan to take forward issues identified from the review.
- 1.3.7 The Council has set up a joint board of elected Members with Aberdeenshire Council to oversee the development of joint services. A joint fleet management service and shared Central Procurement Unit are now in place. Collaboration on procurement is being pursued actively with the Tayside Procurement Consortium. The Council is also heavily involved with joint working through the North East of Scotland Joint Public Sector Group.
- 1.3.8 During the year to June 2007 the Internal Audit service has operated below strength and had additional unplanned work to undertake. This impacted on delivery of the Internal Audit plan and the work that we were able to place reliance on. The overall impact for our 2006/07 audit has been manageable. Delivery of the 2007/08 plan is currently behind schedule as several rounds of recruitment have failed to secure appropriate candidates. Alternative delivery options are being considered and in the meantime work is being prioritised with regard to risk.
- 1.3.9 At Audit Scotland's request we undertook a review of the Council's actions in connection with procedures relating to planning and the valuation of a property disposal made in a previous year. Following our initial examination Internal Audit carried out a wide-ranging review over a number of property disposals. They reported to the Continuous Improvement Committee in September 2007. The factual accuracy of our own report to Audit Scotland is currently being confirmed with senior management of the Council.
- 1.3.10 In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. Fraud has been proven in 16 cases to date. Overpayments due to error and fraud amount to £131,000. The Council has begun recovery action for £126,000 of this.



# Executive Summary

## 1.4 Performance (Section 5, page 22)

- 1.4.1 Quarterly reviews of performance against service plans by the CMT began during 2007/08. The CMT also consider financial monitoring reports prior to these being presented to committees. These processes are key tools to aid the management team in addressing the budget pressures discussed in the Finance section of this report.
- 1.4.2 The Council has a number of initiatives underway to improve performance management including the use of Citistat, acquiring a new performance management system, development of a Balanced Scorecard approach and identification of baseline unit costs for key processes and services.
- 1.4.3 Citistat's use in relation to housing lets has resulted in additional income from letting of £2.4 million and the Council's target for void rent loss being achieved two years ahead of schedule. Citistat has also been used to drive down the number of clients waiting in hospital for discharge. These successes have led to awards from the Management Journal Local Government Awards and won the Best Efficiency Initiative category in this year's Association for Public Excellence Awards.
- 1.4.4 An outline Resources Management Strategy has been prepared. This is planned to have further detailed analysis included within it by the end of October 2007 and it is intended that the service planning process will be more closely engaged with resource management in future.
- 1.4.5 Internal Audit carried out a review of public performance reporting and in its July 2007 report concluded that "*public performance reporting is not fully satisfactory*". An improvement action plan was agreed to address issues in management arrangements, identifying stakeholder needs and reviewing guidance. Completion of the actions is planned by the end of 2007.
- 1.4.6 Work to strengthen risk management at service level and to link service and corporate risk management effectively has been underway during 2006/07. Further work is under way, including planned risk management training.
- 1.4.7 The Council produced its Efficiency Statement and lodged it with the Scottish Executive by the suggested deadline of 31 August 2007. This showed efficiencies of £6,386,787.
- 1.4.8 A full Best Value audit of the Council was undertaken during 2006/07. As the Council's external auditors we were involved in the audit, working with the Audit Scotland Best Value team. Audit Scotland intends to publish its report to the Council in November 2007.
- 1.4.9 We concluded that the systems in operation for the production and publication of the 2006/07 SPIs were unreliable for six of the 57 indicators. Four of the systems that were found to be unreliable were also unreliable in 2005/06 and one related to a new indicator for 2006/07. A formal investigation, by the Council's Investigations Unit, is now underway in to the lack of robust processes for capturing these SPIs.



# Introduction

## 2.1 Introduction

- 2.1.1 We are pleased to submit our third annual report covering significant matters arising during the course of our audit of Aberdeen City Council (the Council) for the year ended 31 March 2007.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our *Risk Assessment, Annual Plan and Fee Proposal for 2006/07* (Report 2007/01 issued on 22 February 2007). The respective responsibilities of Council Members, officers and the 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 and its group'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 raised a number of issues during the course of the audit, including matters highlighted in our *Report to those charged with Governance on the audit of Aberdeen City Council: (ISA 260 Report) Report 2007/05*, issued on 28 September 2007. The main points from our audit 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 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.



## 3.1 Audit Completion

- 3.1.1 We are pleased to report that the 2006/07 target date of 30 September 2007 for the audit completion and certification of the annual accounts was met.
- 3.1.2 On 28 September 2007 we issued our ISA 260 report and met with the Convenor of the Continuous Improvement Committee as a representative of those charged with governance to discuss issues arising from the audit and the final audit adjustments to the draft accounts were agreed.

## 3.2 Accounts Certification

- 3.2.1 On 28 September 2007 we issued our audit report expressing an unqualified opinion on the financial statements of the Council and its group for the year ended 31 March 2007. We set out below a summary of the audit certification issues:
- ❑ The financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of Aberdeen City Council and its group at 31 March 2007 and its income and expenditure for the year then ended.
  - ❑ The Council failed to meet the statutory three-year breakeven target for the building maintenance significant trading operation.
  - ❑ 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 Audit Adjustments

- 3.3.1 Twenty-one significant audit adjustments were identified during the course of our audit of the financial statements. The Council agreed to adjust the accounts for all but one of the significant audit adjustments. A further eleven non significant adjustments were also agreed to ensure that the cumulative value of unadjusted errors was below our level of significance and the financial statements were amended.
- 3.3.2 The adjustment that was not made related to the depreciation of Cove library, which had been incorrectly depreciated over one year instead of the 40 years stated in the Council's depreciation policy, resulting in a potential error of £0.778m. It has been agreed that this will not be adjusted as it will be subject to a full review and revaluation during 2007/08.
- 3.3.3 The net effect of the agreed adjustments on the Income and Expenditure Account for 2006/07 was £0.406 million, increasing the deficit reported in the draft accounts of £11.322 million to £11.728 million in the final accounts. The net effect on the General Fund Balance was to change the increase in the Fund of £0.968 million in the draft accounts by £1.579 million giving an overall decrease of £0.611 million in the movement on the Fund for the year.
- 3.3.4 The 2005/06 figures were also adjusted; the restated deficit on the Income and Expenditure Account of £36.652 million in the draft accounts decreased by £0.424 million to £36.288 million in the final Income and Expenditure Account. There was no impact on the reported decrease in the General Fund Balance for the year of £16.142 million



## 3.3 Audit Adjustments (Cont'd)

- 3.3.5 The audit adjustments impacting on the Council's Balance Sheet increased the Total Net Worth by £0.545 million to £1.008 billion at 31 March 2007. There was no change made to the Balance Sheet at 31 March 2006.
- 3.3.6 The Pension Fund Accounts at 31 March 2007 was also adjusted by £2.192 million increasing the Net Assets to £1.787 billion.
- 3.3.7 The Council's group accounts were adjusted to include the final audited results of the Grampian Police, Fire and Rescue and Valuation Joint Boards, and to take account of the adjustments in the Council's own figures for both 2005/06 and 2006/07. The group accounts were also adjusted to remove NESTRAN's draft results. Although these had been included in the draft group accounts for 2006/07, following further consideration the Council decided that they should be removed as they are not considered to be material to the group accounts as NESTRAN is prohibited from having a surplus or reserves.
- 3.3.8 The net effect on the group's reported deficit on the Group Income and Expenditure Account was £0.473 million in 2005/06 reducing the deficit in the draft accounts of £58.731 million to £58.258 million. In 2006/07 the reported deficit of £31.036 million was increased by £1.038 million to £32.074 million.
- 3.3.9 Details of these audit adjustments were highlighted in our ISA 260 report, issued to the Corporate Accounting Manager and the Convenor of the Continuous Improvement Committee on 28 September 2007.

## 3.4 Financial Position

- 3.4.1 In accordance with the changes in the 2006 SORP the Council included an Income and Expenditure Account and a Statement of Movement on the General Fund Balance in their accounts.
- 3.4.2 The Council's net operating expenditure of £381.176 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £11.728 million reported in the Income and Expenditure Account. After the necessary adjustments to establish the movement on the General Fund Balance for the year were made the General Fund Balance decreased by £0.611 million (2005/06 – decrease £16.142 million). The balance on this fund carried forward at 31 March 2007 is £13.811 million.

## 3.5 Financial Performance

- 3.5.1 Financial performance is measured against the financial budget set by the Council in February 2006 for 2006/07. In this regard the Council's General Fund balance, including the HRA balances, increased by £5.987 million which compares favourably with a budgeted use of balances of £10.714 million. The Housing Revenue Account made a surplus of £1.7 million which compares favourably with the budgeted deficit of £0.741 million.
- 3.5.2 This improved position reflects two extremes, firstly a significant over committed operating position when compared to budget, and secondly an additional contribution from the Capital Fund.

## 3.5 Financial Performance (Cont'd)

**Table 1 – Financial Performance against 2006/07 budget**

<b>General Fund Balance</b>		
	<b>£m</b>	<b>£m</b>
Budgeted decrease to the General Fund		10.714
<b>(1) Movements: (favourable)/ adverse</b>		
Social Work Services	6.613	
Education	1.180	
Waste Disposal	2.195	
Equal Pay Settlement	2.700	
Surplus Share buy-out (Trading Operations)	1.200	
Property Repairs and Maintenance	1.500	
Planning fee income	(1.136)	
Supporting People	(1.032)	
Council Tax Income	(0.200)	
Non Domestic Rates Income	0.218	
Pension Costs, strain on fund	(1.000)	
Under spends – ward budgets and approved projects (carried forward)	(0.935)	
Various other items across services	<u>0.543</u>	11.846
<b>Actual Operational Deficit</b>		<b>20.981</b>
<b>(2) Contributions from Other Funds</b>		
Insurance Fund	(0.600)	
Capital Fund	(15.281)	
Debt Repayment – Garthdee	2.720	
Housing Revenue Account	(15.386)	<u>(28.547)</u>
<b>Actual increase on the General Fund</b>		<b>5.987</b>

3.5.3 To achieve a balanced budget when the budget was set it was proposed and approved that £5.091 million of General Reserve Fund balance would be utilised during 2006/07. The base budget spend of £371.195 million set on 9 February 2006 was increased as a result of adjustments to Revenue Support Grant, and commitments brought forward from 2005/06 and other expenditure approved by the Council during the year. As a result of these adjustments the budgeted decrease on the General Fund was £10.714 million.

3.5.4 An in-year budget deficit of £11.846 million has resulted in an overall operational deficit of £20.981 million.

3.5.5 In recognising the need to address the continued and forecast depletion of reserves and balances, the Council approved a strategy to replenish balances through the use of the Capital Fund by way of releasing the net capital proceeds from the sale of the industrial sites. This resulted in £15.281 million being transferred to the General Fund to cover debt principal repayments. The same approach was applied to the Housing Revenue Account (HRA) so that capital expenditure previously charged directly to the HRA was financed by a contribution from the Capital Fund. This resulted in a large surplus in the HRA which in terms of the Housing (Scotland) Act 1987 can be credited to the General Fund. A further transfer of £15.386 million was therefore made to the General Fund.

3.5.6 The City Chamberlain in her “*Draft Annual Accounts 2006/07 Report*” to the Full Council on 27 June 2007 highlighted the main Service over and under spends resulting in the operational deficit of £20.981 million. Key highlights are reported here.

## 3.5 Financial Performance (Cont'd)

3.5.7 Social Work Services have continually reported over spending throughout the year and while improvements were made towards the year end, there remains significant commitment to providing services beyond the amounts budgeted.

3.5.8 Costs associated with the disposal of waste have increased through the taxing of landfill tonnages. The Council's position on incineration of waste in comparison to the approved Strategic Waste Fund plan adds to these cost pressures.

3.5.9 A provision of £5.582 million has been included in 2006/07 for equal pay liabilities that exist in respect of the commitment given by the Council to those signing compensatory agreements that the outcomes of job evaluation would be backdated. This provision was re-assessed during the year, with a further £2.7 million required in addition to that budgeted.

### **Significant trading operations (STO)**

3.5.10 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 six 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

3.5.11 The results of the STOs are disclosed in the Council's Income and Expenditure Account and associated notes. Five of the six STOs have met their three-year break-even target. Building Maintenance made a deficit in the current year which has resulted in it failing to meet the 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 £m
	2004/05 £m	2005/06 £m	2006/07 £m	
Building Maintenance	(0.167)	0.227	(0.731)	(0.671)
Environmental Services	0.319	1.068	0.007	1.394
Road Maintenance	0.300	0.428	0.464	1.192
Letting of Industrial, Commercial & other Properties	3.507	3.846	3.110	10.463
Maintenance of Grounds	0.010	1.027	0.627	1.664
Provision & Management of Car Parking Facilities	2.753	3.645	3.338	9.736
<b>Overall Total</b>	<b>6.722</b>	<b>10.241</b>	<b>6.815</b>	<b>23.778</b>

3.5.12 The deficit position within Building Maintenance is partly due to a continuing shortage of qualified tradesmen. New contracts incorporating flexible working hours and more efficient methods of operation have been agreed with the workforce and trade unions. These new contracts came into force in May 2007, and combined with the introduction of an appointments system and new technology, should lead to significant efficiency gains in the future.

## 3.5 Financial Performance (Cont'd)

### *Significant trading operations (STO) (Cont'd)*

- 3.5.13 All STOs are budgeted to produce a surplus in 2007/08 which would, if achieved, ensure that the rolling three-year breakeven target will be met in 2007/08, with the exception of Building Maintenance. While this is budgeted to produce a surplus in 2007/08, it is not sufficient to bring the three-year outturn to a surplus position.

### *Housing Revenue Account*

- 3.5.14 The Housing Revenue Account (HRA) balanced in 2006/07 with the level of income generated matching expenditure, resulting in the HRA having no working balances. This is mainly due to the use of the Capital Fund as referred to above. Had this not been the case the HRA would have made a surplus of £1.7 million compared to a budgeted deficit of £0.741 million. These monies are being returned to the HRA in 2007/08.
- 3.5.15 The main reasons 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. There were also higher than projected interest on revenue balances and higher than budgeted spending on housing repairs work in relation to voids which had initially been charged to capital. These higher costs were partly compensated by lower than budgeted requirements for revenue support to capital and a large improvement in the letting of voids which subsequently reduced the loss on rent by £2.4 million.

## 3.6 Pensions

- 3.6.1 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 2007 exceeded its share of the scheme assets by £101.7 million (2005/06 - £138.9 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.
- 3.6.2 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.
- 3.6.3 The report recommended the following increased rates in the employers' contributions for the next 3 years as follows; 275% in 2006/07 rising to 300% in 2008/09.
- 3.6.4 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.

## 3.7 Accounting treatment of premiums incurred on the early repayment of debt

3.7.1 The Council's balance sheet at 31 March 2007 includes £17.583 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 £5.164 million relates to restructures where fixed interest rate loans were replaced with similar fixed rate loans (albeit at a lower rate of interest) whilst £12.419 million relates to restructures involving fixed interest rate loans being replaced by lender option borrower option loan agreements (LOBOs).

3.7.2 The 2006 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 FRS 4 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.

3.7.3 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.

3.7.4 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 2006/07 accounts in that regard.

3.7.5 The revised SORP applicable for the 2007/08 accounts will mean that, in the majority of cases, the option to amortise premiums will be removed. However there are transitional arrangements which will come into force that will mitigate the impact of this change on council tax.

## 3.8 Financial Pressures

### *Equal Pay and Modernisation*

3.8.1 The Council has carried out a job evaluation exercise as part of Equal Pay and Modernisation which has still to be agreed with employees and Trade Unions. Implementation of Equal Pay and Modernisation is expected in January 2008. This should ensure the Council's pay and grading structure takes full account of equality issues across all employee groups within the Council. Further equal pay claims are expected following completion of the job evaluation exercise.

## 3.8 Financial Pressures (Cont'd)

### *Equal Pay and Modernisation (Cont'd)*

3.8.1 Approximately 8,500 employees will be affected by Equal Pay and Modernisation, with the expected cost to the Council currently estimated at £34.6 million over 4 years. The anticipated cost in 2007/08 is £6.382 million which is to be funded from the Council's uncommitted balances. In contrast, in view of the position the Council has reached in relation to Terms and Conditions negotiations with the Trade Unions, the full year savings in respect of revised Terms and Conditions (£6.4 million) is not estimated to be achieved, and actual savings will depend on a final implementation.

### *Waste Disposal*

3.8.2 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 re-instatement of three landfill sites.

3.8.3 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.

## 3.9 Reserves and Balances

3.9.1 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 2007 the fund balances and reserves held by the Council totalled £48.142 million.

**Table 3 – Fund balances and reserves**

<b>Fund balances and reserves</b>	<b>2006/07</b>	<b>2005/06</b>	<b>Movement</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund	13.811	7.824	5.987
Housing Revenue Account	0	6.598	(6.598)
City Improvements Fund	0.539	0.555	(0.016)
Queens Links Reinstatement Fund	0.088	0.084	0.004
Lord Byron Fund	0.005	0.005	0
Capital Fund	32.369	0	32.369
Insurance Fund	0.868	1.003	(0.135)
Energy Efficiency Fund	0.462	0.421	0.041
<b>At 31 March</b>	<b>48.142</b>	<b>16.490</b>	<b>31.652</b>

3.9.2 The General Fund balance has increased by £5.987 million in 2006/07 as a result of the deficit for the year and a transfer from the HRA working balance, leaving a closing General Fund balance of £13.811 million. As reported earlier, this was largely due to the use of the Capital Fund.

## 3.9 Reserves and Balances (Cont'd)

- 3.9.3 Commitments against the General Fund balance at the year end total £8.235 million resulting in an uncommitted balance at 31 March 2007 of £5.576 million.
- 3.9.4 The City Chamberlain reported in her “2007/08 General Fund Revenue Budget Monitoring Report” to the Resources Management Committee on 9 October 2007, that the projected outturn shows an over-commitment of £14.639 million.
- 3.9.5 The anticipated cost of the job evaluation element of the Equal Pay and Modernisation implementation in 2007/08 have been estimated to be approximately £6.382 million, which has been held as costs to be funded from uncommitted balances. This results in £8.257 million over-commitments to be addressed.
- 3.9.6 The largest area of service where cost pressures continue to be prevalent is within Social Work services. The overall cost pressure across the service is £8.244 million, however, this will be subject to reductions resulting from the Transformation Programme and the continued work to progress costs reductions in the remainder of the year.
- 3.9.7 The Corporate Accounting Manager has reported a projected closing balance on the General Fund at 31 March 2008 of £10.338 million (post audit adjustments this would be £8.759 million). If the over-commitments referred to above were to be supported from the General Fund balance then the closing balance would reduce to £2.081 million (post audit adjustments this would be £0.502 million).
- 3.9.8 There is clearly a need to restrict the level of contribution from the General Fund to support the budget for 2007/08. To maintain the recommended balances in future years, there would have to be further contributions from the Capital Fund, which is not guaranteed into the future, or alternatively an improved outturn position.
- 3.9.9 Reports to the respective core and monitoring committees have highlighted the need for managers to deliver the expected cost reductions to ensure that the Council’s budget is sustainable in the current year. It has also been reported that it is vital that the delivery of the Transformation Programme and further developments of strategic frameworks for services is put in place to ensure the medium to long term sustainability of the Council’s financial position.
- 3.9.10 Last year we noted that due to the impact of “Demand Led” pressures the Council’s overall financial position was regarded as precarious with the need for tight control over all budgets during 2006/07. At October 2007 the Council has identified £1.3 million of savings and £6.3 million of balance transfers to fund projected over-commitments for 2007/08. This leaves £8.257 million of projected over-commitment for which the Chief Executive and the Corporate Management Team are addressing potential actions to close the projected budget gap.
- 3.9.11 The Council recognise that immediate action is required if it is to ensure that at 31 March 2008 the outturn does not result in an overall deficit on the General Fund balance and impact on service delivery, and the ability to meet current and future commitments. Sustainable strategies are being sought to bring the Council’s spending back into line and ensure financial stability in future. The transformation of Adult Services and Services to Children and Young people has already been reported to Council on 1 October and action plans are currently being developed.

## 3.9 Reserves and Balances (Cont'd)

3.9.12 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. The current position demonstrates that close scrutiny and monitoring will be of paramount importance going forward.

### Recommendations

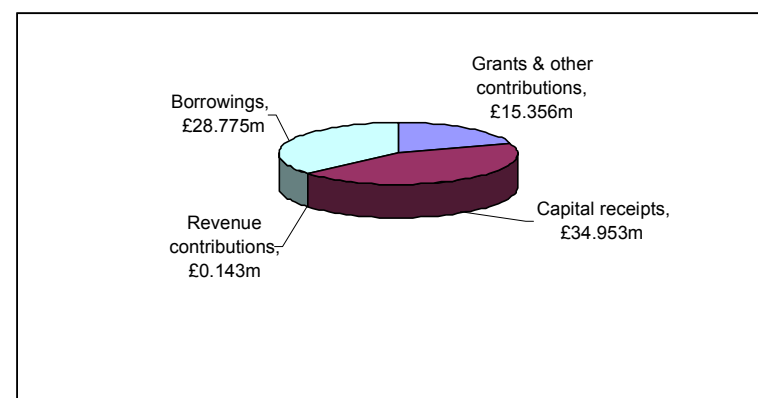
**R1** Members and officers should continue to monitor the projected outturn position and take further corrective action as required.

**R2** Budget holders should ensure they deliver the savings wherever possible to help address the current budget position.

## 3.10 Capital Expenditure

3.10.1 Gross capital expenditure amounted to £79.227 million of which £29.195 million was on the Housing Programme. Funding for the capital expenditure was made up as follows:

**Capital Expenditure Funding Sources  
2006/07**



3.10.2 The Service areas where the most significant capital expenditure was incurred within the General Fund were Arts and Recreation, Education and Roads and Transportation. The main projects were Aulton Changing Facilities Upgrade of £2.2 million, Coast Protection Scheme of £2 million, Upgrade Market Street Junction of £2.2 million, Lighting Replacement of £2.6 million and Marischal College Refurbishment of £2.5 million.

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



## 3.11 Capital Accounting

3.11.1 The main movements on Fixed Assets during 2006/07 were

- ❑ additions of £75.559 million, including £32.856 million on Council Dwellings, £13.767 million on Operational Land and Buildings and £18.741 million on Infrastructure Assets.
- ❑ revaluations of £27.315 million, including £17.585 million on Council Dwellings and £9.248 million on Investment Properties
- ❑ disposals of £52.111 million, including £11.263 million of Council Houses and £40.848 million of Surplus Assets.

Details of all movements on Fixed Assets and Capital Accounting entries are disclosed in the accounts.

3.11.2 During the year, the Council disposed of significant investment assets in the Tullos industrial estate portfolio. The net proceeds of £59.946 million have been credited to the Capital Fund. £6.014 million and £7.055 million were utilised to meet capital expenditure on the General Fund and the HRA respectively. A further £15.281 million was transferred to the General Fund to cover capital debt repayments. The balance on the Capital Fund carried forward at 31 March 2007, including interest, was £32.369 million.

## 3.12 Public Private Partnership PPP

3.12.1 The Council anticipates reaching commercial and financial close on its new schools PPP project; Reorganise, Renovate and Rebuild (the 3Rs Project), at the end of 2007 when the contract is expected to be signed with the NYOP Education Consortium to deliver in excess of £110 million of investment in its school estate. The 3Rs project involves the construction of nine new, and refurbishment of two existing, schools.

3.12.2 The Council's current view is that these assets are deemed by the Council and its financial advisers to be off balance sheet for accounting purposes and will transfer back into Council ownership at the end of the 30 year contract at no additional cost. The Council will pay an annual unitary charge to the contractor which covers the costs of developing the assets and associated facilities management.

3.12.3 As the Council's external auditors we are required to form an independent view on how the Council has discharged its stewardship of public funds. In September 2007 we wrote to the Council's financial advisers on the project with our provisional judgement based on the available information supplied to us at that time. We concluded that the process followed to determine whether this transaction was on or off balance sheet was in accordance with current underlying guidance and that the Council's judgement on the accounting treatment was reasonable.

3.12.4 We will review the final business case and operator's financial model to ensure that there have been no significant changes that would alter the off balance sheet view. We will issue a final judgement at the conclusion of our review.

## 3.13 Group accounts

3.13.1 The Council reviewed 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	
	2005/06	2006/07
<b>Subsidiaries</b>		
Aberdeen Exhibition and Conference Centre	100%	100%
Mountwest 343 Ltd	100%	100%
Common Good	100%	100%
Trust Funds	100%	100%
<b>Associates</b>		
Grampian Joint Fire and Rescue Board	49%	49%
Grampian Joint Police Board	48%	48%
Grampian Valuation Joint Board	39%	39%

3.13.2 The Group's net expenditure of £425.347 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £32.074 million.

3.13.3 The Group Balance Sheet shows the Total Assets less Liabilities to be £755.043 million, compared with the Council's single entity Balance Sheet total of £1,009 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 £297.370 million. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.



## 4.1 General Governance

- 4.1.1 The Council went into 2006/07 with the new senior management team in post and revised management structures largely in place. Political governance structures were not aligned with the management structures until after the May 2007 elections. The revised political structure was approved at the Council meeting on 16 May 2007 with area committees put in place to mirror the management structure and continue the Council's commitment to bringing service delivery to the local level. Other changes to the committee structure were also put in place to help improve scrutiny roles and aid the continuous improvement agenda.
- 4.1.2 In June 2007 the Council approved its policy statement "Vibrant, Dynamic & Forward Looking". This statement identifies actions required to implement the Administration's manifesto commitments. Performance measures have been identified to monitor its implementation. Priorities from this, which will influence future targets and planning, are currently being identified.
- 4.1.3 The Corporate Plan is currently being reviewed and this is due to be finalised at the end of 2007 to coincide with the current Community Plan review. The Council's policy statement will feed into the Corporate Plan review. It is important that the Council ensure that linkages between these plans are clear and robust.

- 4.1.4 We have previously commented on the need to strengthen the Council's service planning. For 2006/07 all six corporate directorates produced draft service plans. Approved service plans have been produced for all services for 2007/08. For 2007/08 the CMT is undertaking quarterly reviews to monitor progress against the plans. This process is new and has the potential once fully developed and bedded in to aid linkage between plans at different levels and allow positive management action to be taken around service delivery and resource management issues. This mechanism will also be used to make any changes required from changes in policy etc.
- 4.1.5 The planning framework is still fairly new and further work is required to ensure that all the plans link properly together and can be efficiently and effectively monitored.

## 4.2 Impact of Local Government Elections

- 4.2.1 In the period following the elections the Council carried on the business of the previous committee structure for the first few months through meetings of the full Council dealing with the work of all committees. Following approval of the revised political structures, aligning them with the management structure, the new committees have been meeting on a regular basis.
- 4.2.2 Scrutiny has been maintained through the meeting cycle. Training on this subject was included in the induction training given to all Members following the May 2007 elections.

## 4.3 Councillors

### *Members' Training*

- 4.3.1 Members receive a handbook that includes the Council's financial regulations and standing orders, the Members Code of Conduct and the Members' Allowance scheme.
- 4.3.2 Following the May 2007 elections training for all Members was delivered during May covering a wide range of topics including the Code of Conduct, financial matters, ICT awareness, standards and scrutiny and Best Value. Further training sessions are planned for the remainder of 2007. Attendance at training events is formally recorded and the Council plan to publish this information on their website in May 2008.
- 4.3.3 The Council has had a training programme for Members in place for some time. The Members Support Officer is currently carrying out one-to-one meetings with each Member to discuss individual training needs. The outcomes from these meetings will be used to create a draft Personal Development Plan (PDP) for discussion and finalisation with each Member by early 2008. The PDP will in due course record training undertaken.
- 4.3.4 Issues identified so far from the one-to-one meetings include ICT, recruitment and selection, Data Protection, Freedom of Information, and managing stress. Some of these are already covered by the planned schedule of training.

## 4.4 Partnership working

### *Community Planning*

- 4.4.1 The Community Plan is currently being revised by The Aberdeen City Alliance (TACA) with support from the Improvement Service. A consultant was used to review the community planning processes in 2006 and the results from this review are informing the review of the plan. A key part of the process will be stakeholder engagement. It is intended that the draft plan will be available in January 2008 with the aim of it being finalised by spring 2008.
- 4.4.2 TACA has reviewed the Audit Scotland report on community planning and has an action plan to take forward issues identified from the review. These include actions around identification of a small number of strategic priorities, TACA's remit, a review of the challenge forums that support delivery of the community plan and the best vehicle for delivery in future.

### *Joint Working*

- 4.4.3 The Council undertakes a number of initiatives in partnership with Aberdeenshire Council. The Councils have set up a joint board of elected Members to oversee the development of joint services, including procurement. This Board has met twice and established the priority areas for a shared approach.
- 4.4.4 A joint fleet management service with Aberdeenshire Council is now in place. The results of a joint tendering exercise for the supply of vehicles and plant are currently being evaluated.

## 4.4 Partnership working (cont'd)

### *Joint Working (cont'd)*

- 4.4.5 The shared Central Procurement Unit has a remit for the procurement of all goods and services across both Councils. Aligned to this is the roll out of two separate procurement systems. The Council is using the national PECOS e-procurement system. Although two systems are involved they encompass sharing of resources, particularly in relation to supplier adoption and catalogue management.
- 4.4.6 The Council sits within the North East area for the national Excel procurement project. As a result collaboration on procurement is being pursued actively with the Tayside Procurement Consortium which comprises Dundee City, Angus and Perth & Kinross Councils.
- 4.4.7 The Council is also heavily involved with joint working through the North East of Scotland Joint Public Sector Group. Ten-year priorities for the North East have been agreed and a number of networks are taking forward joint working across, Finance, HR, Data Sharing, Performance Management, Property and Procurement.

## 4.5 Reliance on Internal Audit

### *2006/07 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 2006/07 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.

- 4.5.2 In our Financial Statements Audit Plan Report no 2007/03, issued on 5 July 2007, we noted that *“During the year to June 2007 the Internal Audit service has operated below strength and has also had additional unplanned work to undertake on investigations. The result of this has been the merger and postponement of a number of projects, and the reduction in scope of others. This has had an impact on the Internal Audit work that we had originally planned to place reliance on but overall the impact for our 2006/07 audit has been manageable.”* Only one project was not reported in time for us to place reliance on the internal audit work for our financial statements’ audit and we revised our year-end testing to take account of that.

### *2007/08 audit*

- 4.5.3 In our report in July we also noted our concern that *“... .. if staffing issues are not resolved soon the 2007/08 Internal Audit plan will not be delivered, impacting on the Council’s own review of controls, and affecting the amount of work that we will be able to place reliance on. This may mean we will need to undertake additional work”*. Delivery of the 2007/08 plan is still behind schedule as the resourcing shortfall has not yet been rectified.

## 4.5 Reliance on Internal Audit (Cont'd)

4.5.4 We are aware that three consecutive rounds of recruitment have failed to secure appropriate candidates. The use of agency staff has been pursued and we believe that one of the two vacant Senior Auditor posts will be filled on this basis in early November. To ensure the delivery of the audit plan, the Internal Audit Manager is closely monitoring progress and consideration is being given to outsourcing packages of audit work on a one off basis. In the meantime, work is being prioritised with regard to risk. We have already had preliminary discussions with Internal Audit about the planned work on which we want to place reliance for 2007/08 and further discussion will take place before we finalise our 2007/08 plan.

### **Recommendation**

**R3** Officers and Members should continue to monitor the resources available in the Internal Audit section and take appropriate action to enable the planned programme to be delivered.

### **Investigations Unit**

4.5.5 The Council has established a dedicated Investigations Unit staffed with 3 Investigations Managers. These officers are dealing with a broad range of investigations from day to day service failures, to disciplinary matters including major investigations such as that described at 4.6 below. We will liaise with the Investigations Managers to ensure their work informs our audit planning where appropriate.

## 4.6 Investigation into Disposal of Properties

### **Background**

4.6.1 From time to time we are required by Audit Scotland to investigate complaints from members of the public. At the request of Audit Scotland we undertook a review in August 2006 of the Council's actions in connection with procedures relating to planning and the valuation of a property disposal made in a previous year. Following our initial examination we reported back to Audit Scotland and raised our concerns with the Chief Executive and the Corporate Director for Resources Management. They immediately committed to Internal Audit carrying out a wide-ranging review over a number of property disposals which had particular characteristics. The resultant Internal Audit report was submitted to the Continuous Improvement Committee in September 2007.

### **Further Reporting**

4.6.2 We have undertaken a review of the work carried out by Internal Audit and have concluded that the Council has undertaken the breadth of review committed to by the Chief Executive. We have prepared a report for Audit Scotland on our findings. The factual accuracy of this report is currently being confirmed with senior management of the Council before submission to Audit Scotland in the near future.

## 4.7 National Fraud Initiative

- 4.7.1 In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 4.7.2 The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Council's involvement in NFI 2006/07 during the course of our audit.
- 4.7.3 After a slow start the Council has shown considerable commitment to the NFI. Good progress has been made to date, with all benefit related matches having been reviewed (although some investigations are still ongoing) and most other areas being near completion. One significant area which has made little progress relates to the checking of disabled parking permits against deceased persons; this is disappointing given that misuse of these permits is a problem in most cities.

- 4.7.4 Although the vast majority of the matches have been found to be innocent, fraud has been proven in 16 cases to date. Overpayments due to error and fraud amount to £131,000. The Council has begun recovery action for £126,000 of this.
- 4.7.5 The overall co-ordinator is monitoring and chasing progress regularly, something which we consider to be important. Initial delays resulted from blurred responsibilities; the nature of the NFI data is such that work needs to start as early as possible.

### **Recommendation**

**R4** When the next NFI round begins it is important that responsibilities are defined and work planned prior to the outputs being received.

# Performance

## 5.1 Strategic Planning

- 5.1.1 The Community Plan is currently under review with a planned final reporting date in spring 2008. The Council's Corporate Plan is also being reviewed in line with this. The review of the Corporate Plan will also consider the Council policy statement "Vibrant, Dynamic & Forward Looking".
- 5.1.2 Communities Scotland has approved the Council's Scottish Housing Quality Standard plan submitted in August 2007. They have however requested that the Council put plans for stock transfer on hold pending the outcome of Scottish Government reconsideration of housing plans. The Council is still progressing preparatory actions so that it is in a position to move quickly once the Scottish Government's policy is confirmed.

## 5.2 Performance Management

### *Monitoring*

- 5.2.1 Last year we reported that the Council had introduced a new performance management system to provide a single format for performance reports. Work is ongoing to ensure that all of these are fully populated with all the information they should contain.
- 5.2.2 Quarterly reviews of performance against service plans by the CMT began during 2007/08. Although this is a new process it shows signs of becoming increasingly effective, for example risk management is now linked into the review from October 2007. The CMT also consider financial monitoring reports prior to these being presented to committees. These processes are key tools to aid the management team in addressing the budget pressures discussed in the Finance section of this report.

- 5.2.3 The CMT are committed to ensuring monitoring is effective and plan to use a range of measures to reinforce the process and raise awareness of particular issues. This will be done through supervisory one-to-one meetings and through the feedback from the quarterly review and monitoring processes. "Team Talk", the Council's staff newsletter, will also be used to raise awareness of issues where appropriate.

### *Management tools*

- 5.2.4 The Council has a number of initiatives underway to improve performance management. Capital funding has been allocated to acquire a performance management system. A preferred option has been identified. Use of a Balanced Scorecard approach to performance management is approved as a Council Transformation Project and is under development. A further Transformation Project to baseline unit costs for key processes and services is also underway.
- 5.2.5 Citistat, a statistical process used to drive improvements in processes, was used to improve the Council's performance in relation to housing lets. By March 2007 the number of empty properties had been reduced to 279, from 1,586 in September 2005. This has resulted in additional income from letting of £2.4 million and the Council's target of 2.5% void rent loss by March 2009 being achieved by January 2007, two years ahead of schedule. Collection of Housing Rent Arrears is now part of this Citistat.





## 5.2 Performance Management (Cont'd)

### *Management tools (cont'd)*

- 5.2.6 Citistat has also been used to drive down the number of clients waiting in hospital for discharge. Challenging targets were set by the Government across Scotland and the Council were able to achieve this through the use of the Citistat approach.
- 5.2.7 These successes have led to awards from the Municipal Journal Local Government Awards and won the Best Efficiency Initiative category in this year's Association for Public Excellence Awards. The Council presented its work on Citistat to the Scottish Government, Improvement Service and other local authorities who are actively looking at Aberdeen's approach as a model of best practice.
- 5.2.8 Use of Citistat is being applied to other service areas where it is thought it can help to manage improved performance. These service areas are City Cleansing, Children's Services, Adult Services, Roads and Sports.

### *Resource Management*

- 5.2.9 The Council previously recognised that a more systematic approach was required to ensure effective deployment of resources going forward. An outline Resources Management Strategy has been prepared. This is planned to have further detailed analysis included within it by the end of October 2007. The decision was made for 2007/08 to return service allocations close to GAE levels of funding. It is intended that the service planning process will be more closely engaged with resource management in future.

- 5.2.10 Linked to the service planning process the Council has been establishing workforce management information to feed into the development of a workforce plan. Skills audits are planned. The process is being led by the Corporate Director for Strategic Leadership, with HR input. Work is currently underway in Children's and Adults' services, and will be rolled out to other services in due course.

### *Public performance reporting*

- 5.2.11 Internal Audit carried out a review of public performance reporting and in its July 2007 report concluded that "*public performance reporting is not fully satisfactory*". The report noted that good guidance on the subject had been issued from the corporate centre, however the report also noted that a significant number of reports that services identified as their performance reporting mechanisms were not available for audit. An improvement action plan was agreed to address issues in management arrangements, identifying stakeholder needs and reviewing the guidance. Following publication of the report this area was identified as a "Key Task" and the Performance Management & Quality Assurance Section is co-ordinating improvement work on this between September and December 2007.

## 5.3 Risk Management

- 5.3.1 We issued our report 2007/06 Risk Management Follow-up Review on 15 October 2007. This review reported progress with the implementation of improvements to the risk management systems of the Council. Last year we noted that, within the overall improvements that were needed to risk management, service risk procedures in particular needed to be strengthened.
- 5.3.2 Implementation of some actions is slightly behind the originally agreed timeframes however the progress made demonstrates that the Council have taken the development of risk management arrangements seriously. The new framework, which is partially implemented, is designed to strengthen risk management at service level and to link service and corporate risk management effectively.
- 5.3.3 The partially implemented actions are for the most part interlinked, with completion largely planned for October 2007. Other actions that are not yet implemented are planned for completion following the next round of service planning.
- 5.3.4 The nature of a number of the actions is such that they require ongoing attention and the framework that is being implemented should enable this to be achieved through the service planning and quarterly monitoring review process. It is important that the CMT continue to monitor the robustness of the information provided to ensure that the framework is used properly to help the Council identify and manage risk promptly and effectively.
- 5.3.5 As a measure of the importance that the CMT place on risk management relevant management training in various forms is planned.

## 5.4 Efficient Government

### *Background*

- 5.4.1 The Scottish Executive incorporated efficiency saving targets to the budgets for all councils from 2005/06 to 2007/08. Following a review of the first year's experiences the Scottish Executive recognised that standard measures should be prepared to aid future reporting of outcomes.
- 5.4.2 The Scottish Executive issued a paper on Efficient Government Reporting "*Framework For Local Authorities in Scotland*" in 2007 which introduced arrangements for reporting on efficiency savings. Efficiency Statements will be compulsory for 2007/08 but councils were encouraged to produce them for 2006/07.

### *Council action*

- 5.4.3 The Council produced its Efficiency Statement and lodged it with the Scottish Executive by the suggested deadline of 31 August 2007. This showed efficiencies of £6,386,787.
- 5.4.4 The Council began to report progress in the delivery of efficiency savings against the national Efficient Government themes using the COSLA reporting format in April 2006. Work is ongoing to ensure that the monitoring system that underpins efficiency claims can confirm no loss of service quality and can track savings to ensure deployment in frontline services. Monitoring of savings is undertaken as part of the Council's Continuous Improvement Programme.
- 5.4.5 In 2007/08 the Council set up a Modernisation Fund to provide a source of funding to support the Council's drive to achieve the significant levels of savings contained in the various action plan proposals put forward by Services.

## 5.5 Best Value Audit

5.5.1 A full Best Value audit of the Council was undertaken during 2006/07. As the Council's external auditors we were involved in the audit, working with the Audit Scotland Best Value team. Audit Scotland intends to publish its report to the Council in November 2007.

## 5.6 Statutory Performance Indicators (SPIs)

### *Summary*

5.6.1 The systems in operation for the production and publication of the SPIs were reliable in all but six of the 57 indicators (one of which was reliable in part) and a separate report will be issued in due course which will also highlight concerns around information recording and reporting.

### *SPI Information*

5.6.2 The 2006/07 return to Audit Scotland for the Council SPIs was not made by the 31 August deadline due to the Council's desire to demonstrate the reliability of certain of the figures. We concluded that the systems in operation for the production and publication of the SPIs were unreliable for six of the 57 indicators: (Adult Social Work - Respite Care, Homecare/Home Helps, Housing -Response Repairs (part of this was reliable), Corporate Management - Payment of Invoices, Cultural and Community Services – Museum Services and Education and Children's Services - Respite Care). Four of the systems that were found to be unreliable were also unreliable in 2005/06 and one related to a new indicator for 2006/07.

5.6.3 The report on the 2005/06 SPIs to the Standards and Scrutiny Committee in March 2007 maintained that three of the indicators would be reliable in 2006/07, when in fact we again found them to be unreliable.

5.6.4 A formal investigation, by the Council's Investigations Unit, is now underway in to the lack of robust processes for capturing these SPIs. We shall be liaising with the Investigations Unit and 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 data. This will be carried out as part of our 2007/08 audit programme.

# Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
3.9.12	<b>R1</b> Members and officers should continue to monitor the projected outturn position and take further corrective action as required.	Current processes are in place through reporting on a cyclical basis to committee and also with regular reports to meetings of the CMT specifically the Resources Management Board meeting. Budget monitoring included as agenda item at Management Team meetings and staff supervisory meetings.	Yes	Resources Management Committee / Corporate Management Team / City Chamberlain	On-going / each Committee cycle / CMT Resources Management Board Meetings
3.9.12	<b>R2</b> Budget holders should ensure they deliver the savings wherever possible to help address the current budget position.	The Council approved strategic reports on Adults and Children Services on 1 October 2007 which provide a framework for achieving savings in the current and future years. This will form a cornerstone of moving the Council towards a sustainable future and will be backed up by further report on these and other areas of service. The Council will continue to review and revise the estimated outturn position in conjunction with budget holders / heads of services and the Finance Managers are to review actions being undertaken to achieve savings for the current year.	Yes	All Budget Holders	On-going



## Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
4.5.4	<b>R3</b> Officers and Members should continue to monitor the resources available in the Internal Audit section and take appropriate action to enable the planned programme to be delivered.	This is ongoing. We are actively seeking to fill posts through standard recruitment and agency. In consultation with external audit, work will, if required, be externalised to ensure delivery of the audit plan.	Yes	Head of Performance Management and Quality Assurance/ Internal Audit Manager	Immediate and ongoing
4.7.5	<b>R4</b> When the next NFI round begins it is important that responsibilities are defined and work planned prior to the outputs being received.	The Financial Services Manager acts as co-ordinator and information is distributed to key officers within the Council to investigate the items identified. It is recognised that where new areas of review are identified by NFI the responsibilities and requirements of service officers not previously involved require to be clarified with them.	Yes	Financial Services Manager	Prior to next NFI round



## 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 12 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 2006, a Statement of Recommended Practice (the 2006 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 of the financial statements. 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 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at September 2007
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 in to 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	This was arranged and partly delivered in May 2007 by Head of Service for Performance Management and Quality Assurance. Dates for further training are currently being arranged.
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	Having reviewed the approach to VFM audit, it has been agreed that there will not be specific VFM audits in the future. Instead all audits will consider the wider context of VFM, Best Value etc in order to deliver more rounded and holistic outcomes for each audit.



## Appendix II - Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at 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	The Council has published its 2006/07 efficiency statement. The work to improve classification of savings etc, has been progressed by Cosla, with guidance now issued to Local Authorities. Having produced the first statement it is expected that the production process and content will be improved year on year.
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	This has become the responsibility of the Head of Policy and Planning (Adults). It is being progressed with the General Manager of Aberdeen CHP.





## Appendix II - Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006	Progress at June 2007
Para 5.3, page 24	<p><b>Significant Trading Operations</b></p> <p><b>R2</b> 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 &amp; 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>	No further amendment to the STO classifications has been made and the 2006/07 financial statement has been prepared on a similar basis to 2005/06.



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Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006	Progress at June 2007
Para 5.3, page 24	<b>R4</b> 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.	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.	<p>Again the cash position was used to calculate refunds/charges to the client. FRS17 adjustments for example were available at the end of the accounts preparation period and could not be incorporated into the calculations.</p> <p>You may be aware that cosla has taken this up with Scottish Govt and are in the process of putting together a short term working group on the whole operation of STOs and we will continue to operate on the cash basis until the issue is resolved.</p>



## Appendix II - Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006	Progress at June 2007
Para 6.5, page 37	<p><b>Standards of Conduct, Integrity and Openness</b></p> <p><b>R7</b> 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.</p>	<p>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</p>	√	Corporate Director for Continuous Improvement	30 September 2006 <b>(Time frame revised to take account of 2007 elections – see 2005/2006 action plan)</b>	<p>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.</p>	<p>Training provided May 2007 and the VFM audit arrangements will be incorporated into the review of the 2007/08 audit plan.</p>

