



HENDERSON LOGGIE

Aberdeen City Council

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

2007/2008

External Audit Report No: 2008/17

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Executive Summary

1.1 Introduction (Section 2, page 6)

- 1.1.1 We are pleased to submit our fourth Report to Members as external auditors of the Council. The report highlights key issues grouped under three distinct headings of financial, governance and performance.
- 1.1.2 The Council's Best Value and Community Planning audit was reported in May 2008 following a Hearing by the Accounts Commission. Significant weaknesses were identified in the report and are currently being addressed through an agreed improvement action plan. Follow-up audit is planned to be reported to the Accounts Commission in May 2009.

1.2 Financial (Section 3, page 9)

- 1.2.1 The Council achieved the statutory deadline for the submission of its accounts for audit.
- 1.2.2 While there is no statutory requirement for the audited accounts to be completed by 30 September, this is the target date set by Audit Scotland for the completion of the accounts of Scottish local authorities each year. This deadline was not met for 2007/08 because of the examination of the Non Domestic Rates Income (NDRI) balances as at 31 March 2008 which the City Chamberlain agreed to undertake. The audit was completed with the issue of a qualified audit opinion on 21 October 2008.
- 1.2.3 We have qualified our audit opinion on the basis that the General Bank Account has not been fully reconciled as at 31 March 2008.

- 1.2.4 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.
- 1.2.5 On 21 October 2008 we issued our ISA 260 report and met with the Convenor of the Scrutiny Panel, as the Council's representative of those charged with governance, to discuss the issues arising from the audit and the final audit adjustments to the draft accounts were agreed.
- 1.2.6 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.
- 1.2.7 The financial statements presented for audit had been prepared incorporating the new requirements introduced by the 2007 Statement of Recommended Practice (SORP).
- 1.2.8 Seven material and twenty significant potential audit adjustments were identified during the course of our audit, mainly to ensure that the requirements of the SORP were met. The Council agreed to make all the proposed adjustments, with the exception of one significant adjustment. Material, significant and trifling in terms of the audit are defined in Appendix II.
- 1.2.9 The significant adjustment which was not made to the accounts related to the Non Domestic Rates Income included in the Income and Expenditure Account. This adjustment would not have had a material impact on the Council's accounts. Details of the audit adjustments were highlighted in our ISA 260 Report.



Executive Summary

1.2 Financial (Section 3, page 9) (cont'd)

- 1.2.10 The Council's net operating expenditure of £491.225 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £110.082 million reported in the Income and Expenditure Account. Against this net deficit, as part of normal accounting practice to convert to an Income and Expenditure Account basis, a number of adjustments were made to take account of entries relating to capital expenditure and other statutory adjustments which do not have an impact on the General Fund Balance. After the necessary adjustments were made the General Fund Balance increased by £10.073 million (2006/07 – decrease £0.566 million). The balance on this fund carried forward at 31 March 2008 is £24.434 million, of which £6.491 million relates to the Housing Revenue Account (HRA).
- 1.2.11 The HRA reported an increase in the HRA working balance in 2007/08 of £6.491 million during the year. Included in this is a net transfer of £8.331 million from the Capital Fund. As this injection financed capital expenditure which would have otherwise been financed by the HRA, there was an actual operational deficit of £1.84 million against a budgeted deficit of £3.866 million.
- 1.2.12 An in-year budget deficit on the General Fund of £10.644 million resulted in an overall operational deficit of £12.709 million. £10.751 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 £5.540 million to the General Fund.
- 1.2.13 While the Capital Fund has been able to support both the General Fund and the HRA, the remaining balance of £8.716 million will not allow this strategy to continue without further asset disposals.
- 1.2.14 Commitments against the General Fund balance of £17.943 million total £12.354 million at the year-end and commitments against the Housing Revenue Account of £6.491 million total £1.061 million resulting in uncommitted balances at 31 March 2008 of £5.589 million and £5.430 million respectively.
- 1.2.15 The Council's net pension liabilities at 31 March 2008, estimated by the Actuary, exceeded its share of the scheme assets by £190.4 million (2006/07 - £101.7 million). Changes in actuarial assumptions have led to an increase in the estimated liability at 31 March 2008.
- 1.2.16 In accordance with the new requirements of the 2007 SORP relating to financial instruments, the Council made the appropriate accounting entries and disclosure requirements in the accounts. Guidance issued by the Scottish Ministers ensured that the adjustments required to the opening balances had no impact on the General Fund balance.
- 1.2.17 As reported in our previous Report to Members, the Council is continually faced with significant financial pressures. In setting its budget for 2008/09, the Council approved a range of savings and cost reductions, with the total budgeted savings to be achieved in 2008/09 being £49.7 million. This included savings of £12.7 million approved in 2007/08 in respect of the Transformation Strategies for Adult and Children Services.



Executive Summary

1.2 Financial (Section 3, page 9) (cont'd)

- 1.2.18 The Interim Chief Executive and the City Chamberlain reported in their “*Financial Strategy for 2009/10*” report to the Budget Monitoring Board on 27 October 2008, that the projected outturn for 2008/09 shows an overspend of £9.524 million. This will be reduced to £1.924 million following non-recurring funding support of £7.6 million from the Capital Fund.
- 1.2.19 The Council has carried out a job evaluation exercise as part of Equal Pay and Modernisation which was agreed after a ballot with Trade Unions in August 2008. The planned implementation date is 1 May 2009. A provision of £8.330 million was included in the 2007/08 accounts to cover the ongoing costs and a further amount of £1.923 million has been earmarked from the General Fund for payment in 2008/09.
- 1.2.20 The largest area of service where cost pressures continue to be prevalent is within Social Work Services with current projections for 2008/09 showing an overspend of £12.6 million. Since the budget was agreed, the Council has had two inspections which have raised concerns regarding significant capacity issues in Children’s Services and therefore needs a long term strategic plan linked to improvements. External work has also been commissioned to analyse the potential for reducing high cost packages in Learning Disabilities. Projected savings in these areas are now only £2 million for 2008/09, compared with budgeted savings of £10.85 million.

1.3 Governance (Section 4, page 25)

- 1.3.1 Revised political governance structures that aligned with the management structures were approved by the Council in May 2007.
- 1.3.2 Following the appointment of the Interim Chief Executive in August 2008 and in response to some of the issues raised in the Best Value report, further changes to the management and governance structures were made on 1 September 2008.
- 1.3.3 The Council has accepted all the recommendations made by the Accounts Commission arising from the Best Value audit. An all Party Leadership Board has been established to take ownership of the improvement plan. A peer group of advisors has been established and regular meetings have been held to implement the recommendations of the Accounts Commission.
- 1.3.4 The audit committee role was transferred from the Continuous Improvement Committee to the Scrutiny Panel.
- 1.3.5 In June 2007 CIPFA, in association with SOLACE, published a revised framework – *Delivering Good Governance in Local Government*. A guidance note for Scottish authorities was issued in May 2008 to assist authorities in complying with this framework. This represents a change in the available good practice and recommends that the annual review of internal controls should be reported in an Annual Governance Statement.



Executive Summary

1.3 Governance (Section 4, page 25) (cont'd)

- 1.3.6 In light of the Accounts Commissions findings and recommendations, the development of the Local Code in 2008/09 will see a full review undertaken through self-assessment overseen by the all-party Leadership Board.
- 1.3.7 The Council put a training programme in place for all members following the May 2007 elections. Job descriptions are in place for all members. Informal one to one meetings were held with members after the election and Personal Development Plans are to be developed.
- 1.3.8 A Central Procurement Unit (CPU) has been set up with Aberdeenshire Council following a review carried out by external consultants. The CPU has identified a programme of 20 commodities with business cases for each, which anticipated joint savings of £25 million over the next five years.
- 1.3.9 During 2007/08 the Internal Audit Service has continued to operate below strength due to difficulties in recruitment, resulting in a number of planned projects from the 2007/08 agreed internal audit plan being put on hold. For the areas on which we intended to place reliance for our Financial Statements audit, we agreed to carry out specific projects as part of our audit outputs which have been reported separately.
- 1.3.10 Due to continued recruitment difficulties in 2008/09, the Continuous Improvement Committee agreed that a package of audits would be identified for placement with a firm of professional accountants. A firm has now been identified therefore delivery of the 2008/09 plan is now on schedule to be completed.
- 1.3.11 At the request of Audit Scotland, we undertook a review of the Council's actions relating to one particular property disposal. As a result of this the Council undertook a wide ranging review of property disposals. We reviewed the outcome of the Council's investigation and reported back to Audit Scotland on our review. We concluded that the Internal Audit investigation was thorough and covered the aspects committed to by the Chief Executive and the Corporate Director of Resources Management. As a result of the issues raised and the findings of the Internal Audit investigation significant changes were made by senior management to enhance the systems of controls, transparency and accountability relating to property disposals.
- 1.3.12 The City Chamberlain has committed to review the breadth of resources within the finance section and the available skills sets to ensure that it is able to maintain a robust financial system to produce accounts and other information which is both timely and accurate.
- 1.3.13 During 2007/08, the Council completed work on the 2006/07 National Fraud Initiative (NFI) in Scotland. 22 frauds were discovered, and the total overpayments identified (including error as well as fraud) amounted to £378,302, of which some £196,000 are notional savings mainly relating to blue badges for parking and payments to care homes.
- 1.3.14 The 2008/09 NFI process began in October 2008. We will again monitor the Council's participation in the exercise and have confirmed that preparation for the new exercise has been full and efficient, and that the data planned to be submitted is in place.



Executive Summary

1.4 Performance (Section 5, page 32)

- 1.4.1 Performance management and reporting are areas that have been recognised by the Council as requiring improvements. Improvement actions have been taken during 2007/08, including the implementation of the Covalent Performance Management System.
- 1.4.2 In October 2007 the Council identified targeted cost reductions for the remainder of 2007/08 resulting from the Transformation Programme, mainly in the areas of Childrens and Adult Services. The majority of these targeted savings were not achieved by 31 March 2008 and were carried forward to be added to the targeted cost reductions for 2008/09. Accurate and timely performance management is essential to ensure that targeted cost reductions and savings are monitored and that appropriate remedial action can be taken if required.
- 1.4.3 Measures have been taken to improve performance measurement, reporting and accountability. The Budget Monitoring Board provides a mechanism for a robust challenge to performance management and to hold officers to account regarding the savings and cost reductions for which they have responsibility.
- 1.4.4 In 2007 national and local government leaders signed a concordat which requires each local authority to produce a Single Outcome Agreement (SOA) detailing how it would contribute to national outcomes whilst meeting its own local priorities. In return, the Scottish Government pledged to allow councils greater freedom. The 2008/09 SOA was signed by the Council, the Aberdeen City Alliance and the Scottish Government on 17 November 2008 and plans are being prepared to produce the 2009/10 agreement.
- 1.4.5 Internal Audit carried out a review during 2007/08 to assess the adequacy of the Council's risk management processes. While it was acknowledged that the Corporate Risk Register was updated in August 2008, the standard of the Service's Risk Registers were assessed as requiring considerable work to achieve a good standard. The Council is currently utilising additional resources to develop the Risk Registers and is working to produce a manual by February 2009.
- 1.4.6 The Council's 2007/08 Efficiency Statement was submitted to the Scottish Government in August 2008. This reported total efficiency gains for 2007/08 of £6.773 million, comprising £3.251 million cashable savings, £0.249 million non-cashable savings and £3.273 million recurring savings.
- 1.4.7 The 2007/08 return to Audit Scotland for Statutory Performance Indicators was made by the 31 August 2008 deadline and publication met the 30 September deadline. We concluded that the systems in operation for the production and publication of the 2007/08 Statutory Performance Indicators (SPIs) were unreliable for three of the 57 indicators, all of which were unreliable in 2006/07.
- 1.4.8 Audit Scotland published the national report *'Improving the School Estate'*, which found that by 2007, 36% of Scottish schools remained in poor condition, and that it could take another 20 years to bring all up to standard. Aberdeen City Council has entered a PPP scheme to develop schools in the city, which is known as the Aberdeen Schools 3Rs Project. The agreement was signed on 21 December 2007 with an estimated capital cost of £130 million. As a result of the current economic climate and the difficulties being experienced by the financing bank, the private partner contractor is re-assessing its financing package.



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our fourth Report to Members covering significant matters arising during the course of our audit of Aberdeen City Council (the Council) for the year ended 31 March 2008.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland and our audit approach are as outlined in our report 2008/01: *Risk Assessment, Annual Plan and Fee Proposal for 2007/08* issued on 28 February 2008. 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 relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission;
 - 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 2008/16: *Report to those charged with Governance on the audit of Aberdeen City Council: (ISA 260 Report)*, issued on 21 October 2008. 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.
- 2.2.4 We take this opportunity to remind you that this report is prepared for the sole use of Aberdeen City Council and the Scrutiny Panel and will be shared with Audit Scotland. No responsibility is assumed by us to any other person who may chose to rely on it for his or her own purposes.



Introduction

2.3 Best Value Audit

2.3.1 A full Best Value and Community Planning audit of the Council was undertaken during 2006/07, with some further work undertaken in 2007/08. As the Council's external auditors we were involved in the audit, working with the Audit Scotland Best Value team.

2.3.2 The Controller of Audit presented the Aberdeen City Council Best Value report to The Accounts Commission on 19 March 2008. Following consideration of the report the Commission decided to hold a Hearing to gather more evidence prior to publishing its findings. The Hearing, held in Aberdeen on 13 and 14 May 2008, also considered the Controller's report on property transactions (see 4.6 below). The Best Value report and the Commission findings are available at http://www.audit-scotland.gov.uk/work/local_bestvalue.php.

2.3.3 The overall conclusion of the Best Value report was:

“Aberdeen City Council has a clear and ambitious vision of modernisation and service improvement. It has gone through a long process of seeking to improve and change the organisational culture. During this period there have been a number of structural changes and corporate initiatives.

While some progress is being made in delivering change, a significant gap remains between its aspiration to be a leading council in Northern Europe and realities on the ground in a number of key areas.

Despite some good areas of service performance, there is evidence of significant weaknesses in major services and the council's financial position is precarious.

The council's leadership has had difficulty in successfully engaging staff with the improvement agenda. It is not possible at this time to say whether the leadership's desire for change will be successful in creating an organisational culture, and securing the necessary behaviours, that support continuous improvement”.

2.3.4 The Commission's recommendations following the hearing included:

- The involvement of all political groups and external advisors in recruiting a new and experienced Chief Executive (the existing Chief Executive had indicated his intention to retire shortly before the hearing started).
- The Council should secure appropriate external assistance from peers to assist it in implementing the findings and recommendations of the Accounts Commission and the Controller of Audit.
- The Council should establish an all party leadership board to take ownership of its improvement plan to tackle the issues raised by the audit process.
- The Council should review its organisational structure.
- The Council should appoint an independent local government finance expert to ensure proposed savings are deliverable and the Council remains on track to deliver them.
- The Council should ensure robust and effective governance arrangements are in place and members should attend appropriate training courses.
- Scrutiny arrangements should be chaired by a member of an opposition party to enhance public confidence in scrutiny.



Introduction

2.3 Best Value Audit (cont'd)

- 2.3.5 The report and Commission findings had a significant impact on the Council, particularly as they came during a period of concern for local people following the setting of the 2008/09 budget, and the significant level of savings that were required in order to set a balanced budget.
- 2.3.6 The Council has taken a number of steps to address the issues raised in the Best Value report and the Improvement Plan required in response to the report was approved by the Council in June 2008. The Chief Executive took early retirement in August 2008 and an interim Chief Executive, was appointed, who has also taken on the independent financial advisor role, as recommended by the Accounts Commission. He has been working with the Corporate Management Team and Members to implement the improvement plan. A new Chief Executive is due to take up post on 1 December 2008.
- 2.3.7 The Commission were sufficiently concerned by the findings of the Best Value audit to request a further report from the Controller of Audit on progress made by the Council in 12 months time (May 2009). Discussion is currently ongoing to decide how best to undertake this exercise. Audit Scotland now has a "gatekeeper" role relating to inspections in Councils and as far as possible the follow-up Best Value work will be co-ordinated with other inspection follow-up due around the same time, in order to minimise the workload for officers. We will be involved with the follow-up and the results of our audit work during 2007/08 will feed into the evidence available for consideration.

2.4 Acknowledgement

- 2.4.1 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 While there is no statutory requirement for the audited accounts to be completed by 30 September, this is the target date set by Audit Scotland for the completion of the accounts of Scottish local authorities each year. This deadline was not met for 2007/08 because of the examination of the NDRI balances as at 31 March 2008 which the City Chamberlain agreed to undertake.
- 3.1.2 On 21 October 2008 we issued our ISA 260 report and met with the Convenor of the Scrutiny Panel 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 21 October 2008 we issued our audit report expressing a qualified opinion on the financial statements of the Council and its group for the year ended 31 March 2008.
- 3.2.2 We have qualified our audit opinion on the basis that the General Bank Account has not been fully reconciled as at 31 March 2008. Officers have reported to Members that difficulties have been experienced with a new electronic system. This system has now been partly removed and staff have reverted to previous systems. However, as the reconciliation of the bank account was not fully completed at the time of conclusion of the audit, we are unable to obtain all the information and explanations that we consider necessary for the purpose of our audit.

- 3.2.3 The bank reconciliation is a fundamental control for any organisation and should be carried out timeously and monitored for completeness. The new electronic system was intended to enhance this process. However, when it became clear that this was not operating effectively, the City Chamberlain committed additional resources to bring the bank reconciliation up to date as soon as possible and is to report progress to the Scrutiny Panel.

- 3.2.4 We set out below a summary of the audit certification issues:

- Except for the financial effect of such adjustments, if any, as might have been found to be necessary had we been able to obtain sufficient appropriate audit evidence concerning the bank reconciliation, in our opinion, the financial statements present fairly, in accordance with applicable laws and regulations and the 2007 SORP, the financial position of Aberdeen City Council and its group at 31 March 2008 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.
- The Statement on the System of Internal Financial Control complies with the SORP. We are not required to consider whether the statement covers all risk and controls or form an opinion on the effectiveness of the Council's corporate governance and risk and control procedures.

3.3 Audit Adjustments

- 3.3.1 In accordance with the changes in the 2007 SORP the Council made the appropriate entries and disclosures required in the accounts for pension funds and FRS 17 accounting requirements, capital adjustment account, revaluation reserve and financial instruments.
- 3.3.2 Seven material and twenty significant audit adjustments were identified during the course of our audit of the financial statements. The Council agreed to adjust the accounts for all of these, with the exception of one significant adjustment. Material, significant and trifling in terms of the audit are defined in Appendix II.
- 3.3.3 The significant item which has not been adjusted relates to the NDRI included in the Income and Expenditure Account. The overstatement of income for 2007/08 is £2.041 million and for 2006/07 the overstatement is £2.862 million. The equivalent figure for 2005/06 was an understatement of income of £0.522 million. Had these adjustments been processed in the accounts they would have had an adverse effect on the Income and Expenditure Account for 2007/08 of £2.041 million, and taking into account the impact on prior years, the General Fund balance at 31 March 2008 would have reduced by £4.381 million.
- 3.3.4 The City Chamberlain has undertaken to carry out a detailed examination of the circumstances surrounding the issue as a matter of urgency and appropriate adjustments will be processed in the 2008/09 accounts. This examination will impact on the finalisation of the annual NDRI return for 2007/08.
- 3.3.5 The net effect of the agreed adjustments on the Income and Expenditure Account for 2007/08 was £35.702 million, increasing the deficit reported in the draft accounts of £74.380 million to £110.082 million in the final accounts. A prior period adjustment was also made reducing the deficit reported in the draft accounts for 2006/07 of £5.933 million to £5.549 million.
- 3.3.6 The majority of the adjustments to the Income and Expenditure Account relate to balances which are subsequently adjusted further within different elements of the accounts. As a result only £1.384 million impacted on the General Fund Balance, changing the increase in the draft accounts of £4.966 million to £3.582 million. The 2006/07 figure changed from a decrease of £0.611 million to a decrease of £0.566 million. The increase in the Housing Revenue Account of £6.491 million was also omitted from the General Fund balance in the draft accounts, therefore the overall increase in the General Fund Balance for the year was £10.073 million.
- 3.3.7 The audit adjustments impacting on the Council's Balance Sheet decreased the Total Net Worth by £36.291 million to £1.025 billion at 31 March 2008. There was no change made to the Balance Sheet at 31 March 2007.
- 3.3.8 The Pension Fund Accounts at 31 March 2008 was also adjusted by £0.828 million decreasing the Net Assets to £1.823 billion.

3.3 Audit Adjustments (cont'd)

- 3.3.9 The Council's group accounts were adjusted to include the final audited results of the Grampian Police, Fire and Rescue and Valuation Joint Boards, AECC and Mountwest and to take account of the adjustments in the Council's own figures for both 2006/07 and 2007/08. Aberdeen Sports Village Ltd's results were included based on management accounts to 31 March 2008.
- 3.3.10 The net effect on the group's reported deficit on the Group Income and Expenditure Account was £0.384 million in 2006/07 reducing the deficit in the draft accounts of £26.279 million to £25.895 million. In 2007/08 the reported deficit of £95.081 million was increased by £35.648 million to £130.729 million.
- 3.3.11 Details of these audit adjustments were highlighted in our ISA 260 report, issued to the City Chamberlain and the Convenor of the Scrutiny Panel on 21 October 2008. A copy of the ISA 260 report has been submitted for the information of the other members of the Scrutiny Panel. All key issues reflected in the ISA 260 report are included in this Report to Members.
- 3.3.12 A number of presentational changes to the notes to the accounts were also required to ensure compliance with the SORP.
- 3.3.13 The financial statements were not adjusted to correct thirty one small errors identified during the audit as they were not sufficiently material to impact on our audit opinion.

3.4 Financial Position

- 3.4.1 The Council's net operating expenditure of £491.225 million exceeded the income from government grants and local taxation, resulting in a deficit on the Income and Expenditure Account for the year of £110.082 million (2006/07 – Deficit of £5.549 million). Against this net deficit, as part of normal accounting practice to convert to an Income and Expenditure Account basis, a number of adjustments were made to take account of entries relating to capital expenditure and other statutory adjustments which do not have an impact on the General Fund Balance. After the necessary adjustments were made the General Fund Balance increased by £10.073 million (2006/07 – decrease of £0.566 million). The balance on this fund carried forward at 31 March 2008 is £24.434 million, of which £6.491 million relates to the Housing Revenue Account (HRA).
- 3.4.2 The HRA Income and Expenditure Account reported a surplus of £11.177 million (2006/07 – Surplus of £5.551 million). The final outturn for 2007/08, after the necessary adjustments to the HRA movements, resulted in an operational deficit of £1.84 million. This, together with a transfer of £8.331 million from the Capital Fund during the year, resulted in an increase on this balance from zero at 31 March 2007 to £6.491 million at 31 March 2008.
- 3.4.3 For statutory accounting purposes the HRA balance requires to be included as a ring-fenced amount within the General Fund balance albeit that for internal and budget purposes the Council treats the HRA and the General Fund entirely separately. The total on the General Fund, including the HRA balance (£6.491 million) and other earmarked funds which require to be included within the General Fund (£0.566 million) carried forward at 31 March 2008 is £24.434 million.

3.5 Financial Performance

- 3.5.1 Financial performance is measured against the financial budget set by the Council in February 2007 (and subsequent approved amendments) for 2007/08. In this regard the Council reported an overspend for the financial year of £10.644 million.
- 3.5.2 When the budget for 2007/08 was set, it was proposed and approved that no amount should be utilised from the General Fund balances during the year. The base budget spend of £373.056 million set on 8 February 2007 was increased as a result of adjustments to Revenue Support Grant, commitments brought forward from 2006/07 and other expenditure approved by the Council during the year. As a result of these adjustments the budgeted decrease on the General Fund was £2.065 million.
- 3.5.3 The Council's General Fund balance, including the HRA balances, increased by £10.073 million compared to a budgeted use of balances of £2.065 million. This improved position can be broken down into three main elements:
- An operational deficit of £12.709 million
 - Contribution from other funds of £16.291 million
 - Increase in HRA balances of £6.491 million

Table 1 – Financial Performance against 2007/08 budget

General Fund Balance		£m	£m
Budgeted decrease to the General Fund			2.065
(1) Movements: (favourable)/ adverse			
Social Work Services		4.900	
Education		2.500	
Anticipated savings – Terms & Conditions changes		6.400	
Equal Pay and Modernisation Provision		(2.000)	
Property Repairs and Maintenance		0.900	
Planning fee income		(0.400)	
Supporting People		(1.400)	
Council Tax/ Housing Benefit Rebate		(1.500)	
Interest on Revenue Balances		0.800	
Non-Domestic Rate Income		(1.700)	
Joint Board requisitions		(0.900)	
Council Tax Provision		0.750	
Various audit adjustments		0.634	
Various other items across services (including non-achievement of savings)		<u>1.660</u>	
			10.644
Actual Operational Deficit			12.709
(2) Contributions from Other Funds			
Capital Fund		(10.751)	
Housing Revenue Account		<u>(5.540)</u>	(16.291)
Increase in General Reserves			3.582
(3) Housing Revenue Account Balance			6.491
Actual Increase in General Fund Balance			<u>10.073</u>

3.5 Financial Performance (cont'd)

3.5.4 The City Chamberlain, in her "Draft Annual Accounts 2007/08" Report to the Full Council on 25 June 2008 and her "General Fund Revenue Budget 2007/08 – Variance Analysis Report" to the Resources Management Committee on 26 August 2008 highlighted the main Services over and under spends resulting in the operational deficit of £12.709 million. Key highlights are as follows:

- ❑ Social Work Services reported an adverse movement of £4.9 million against budget. A high value of savings were focused on the social care services when setting the budget for 2007/08, however, the requirement for a proper strategic review of services, which was completed and reported to the Council on 1 October 2007, resulted in delays in specific savings being progressed in the early months of the year.
- ❑ Education costs reported an adverse movement at the year-end of £2.5 million. The main reasons being the costs of fuel supplies.
- ❑ Within the budget for 2007/08, there were two elements relating to the equal pay and modernisation (EP&M) of staff terms and conditions. Firstly, an amount was set to meet the additional costs of the equal pay outcomes and secondly, a value had been estimated of what could be saved as a result of the introduction of new terms and conditions. Due to the delay in implementation of the whole EP&M solution, budgeted savings of £6.4 million could not be achieved, and are therefore shown as an adverse movement. Following the announcement in January 2008 of the proposed grading structure, the provision required in the accounts was revised, which had a favourable movement against the budget of £2 million.

Capital Fund

3.5.5 In 2006/07, 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. A similar approach to that adopted in 2006/07 has therefore been followed in 2007/08 whereby the Council has utilised transfers from the Capital Fund, directly and indirectly, to fund capital expenditure and debt charges, which would have otherwise been funded from the General Fund. This has resulted in £10.751 million being transferred directly to the General Fund and a further £5.540 million indirectly via the Housing Revenue Account.

3.5.6 On 1 April 2007 a further transfer of £8.331 million was made from the Capital Fund to the HRA to restore the HRA working balances to reflect a transfer from the HRA to the General Fund on 31 March 2007. As at 31 March 2008 the remaining balance on the Capital Fund was £8.716 million.

3.5.7 While the Capital Fund has been able to support both the General Fund and the HRA in terms of the strategy established in 2006/07, the remaining balance on that account of £8.716 million will not enable this strategy to continue without further asset disposals.

Housing Revenue Account

3.5.8 The HRA reported an increase in the HRA working balance in 2007/08 of £6.491 million during the year. Included in this is a net transfer of £8.331 million from the Capital Fund referred to above. As this injection financed capital expenditure which would have otherwise been financed by the HRA, there was an actual operational deficit of £1.84 million against a budgeted deficit of £3.866 million.

3.5 Financial Performance (cont'd)

Housing Revenue Account (cont'd)

3.5.9 The main reasons for this variance are savings in respect of capital financing charges through a lower than anticipated spend on Housing Capital in 2007/08 as a result of the delay in implementing the framework agreement and pressures in the investment market providing the Council with a better rate of interest. Also, the Council's continued success with new initiatives and improved working practices saw a reduced cost on void properties.

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 both the current and prior years 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
	2005/06 £m	2006/07 £m	2007/08 £m	
Building Maintenance	0.227	(0.731)	(0.261)	(0.765)
Environmental Services	1.068	0.007	0.509	1.584
Road Maintenance	0.428	0.464	0.391	1.283
Letting of Industrial, Commercial & other Properties	3.846	3.110	(1.947)	5.009
Maintenance of Grounds	1.027	0.627	0.472	2.126
Provision & Management of Car Parking Facilities	3.645	3.338	4.319	11.302
Overall Total	10.241	6.815	3.483	20.539

3.5.12 The current year deficit position within Letting of Industrial, Commercial and other Properties is due to an exceptional charge of £5.292 million in respect of revaluation of specific investment properties. This charge was required due to the changes in the 2007 SORP relating to Revaluation Reserves, whereby any reduction in value must be charged to the Income and Expenditure Account unless there has previously been a credit to the Revaluation Reserve for the same property. As this was the first year of implementation, the full reduction in value was charged to the Income and Expenditure Account.

3.5 Financial Performance (cont'd)

3.5.13 The deficit position within Building Maintenance is partly due to a continuing shortage of qualified tradesmen. Steps being taken to improve the performance of this service are based upon the introduction of a new agreement with the craftworkers and the implementation of a new computer system, as follows:

- ❑ New contracts incorporating flexible working hours and consolidating bonus payments into a fixed salary has allowed significant savings to be made in overtime and support costs. The new agreement was implemented in May 2007 and the full extent of the savings are now being realised by the start of the 2008/09 financial year.
- ❑ The implementation of a new computer system encompassing job costing, appointments and mobile working technology is currently in progress and is expected to be fully operational during 2008/09. This will allow the service to reduce non-productive time and mobile working technology is expected to achieve further reductions in the cost of the storage and delivery of materials.

These improvements are expected to allow the service to expand its workload by competing for more of the work that is currently undertaken by private contractors. The service is therefore expected to return to a break-even position in 2008/09.

3.5.14 All STOs are projecting to produce a surplus in 2008/09 which would, if achieved, ensure that the rolling three-year breakeven target will be met in 2008/09.

3.5.15 A number of the STOs are still working under the terms of the old Compulsory Competitive Tendering (CCT) contracts, which were originally subject to competitive tendering a number of years ago. As reported in the Accounts Commissions Report *The Audit of Best Value and Community Planning*, the Council has made limited progress in testing the competitiveness of its services and its approach to market testing has been inconsistent across services.

3.5.16 The Council is currently reviewing the recharging arrangements of all of its STOs with a view to replacing all of the CCT contracts with updated and improved charging arrangements. Where CCT contracts are still in place, it is an interim measure pending the introduction of revised charging methods.

3.6 Pensions

3.6.1 Accounting for the costs of pensions presents a difficult challenge for local authorities. The amounts involved are large, the timescales long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 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.

3.6 Pensions (cont'd)

3.6.2 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 Pension Scheme (LGPS), the Council's estimated share of the pension liabilities at 31 March 2008 exceeded its share of the scheme assets. In addition, the Council make contributions into the Teachers Pension Scheme for teaching staff employed by the Council, which is administered by the Scottish Government. Both schemes provide members with defined benefits relating to pay and services.

3.6.3 The Council's net pension liabilities at 31 March are as follow:

Table 3 – Pension liabilities

Estimated pension liabilities	2006/07	2007/08	Movement
Pension Scheme	£m	£m	£m
Local Government	83.706	171.062	87.356
Teachers	18.036	19.306	1.270
	=====	=====	=====
Pension liabilities at 31 March	101.742	190.368	88.626
	=====	=====	=====

Changes in actuarial assumptions have led to an increase in the estimated liability at 31 March 2008. In particular, the basis for the proposed discount rate has changed.

3.6.4 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.

3.6.5 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.

3.6.6 The accounts are required to report events after the year end that have an impact on the accounts. The recent fall in world stock markets resulted in the valuation of the Main Fund at 30 September 2008 decreasing by £142 million to £1.627 billion and the Transport Fund decreasing by £4.2 million to £48.9 million.

3.7 Financial Instruments

3.7.1 In accordance with the new requirements of the 2007 SORP relating to financial instruments, the Council made the appropriate accounting entries and disclosure requirements in the accounts.

3.7.2 Guidance was issued by the Scottish Ministers under section 12(2)(b) of the Local Government Scotland Act 2003 to ensure that the adjustments required to the opening balances had no impact on the General Fund balance. The main impact of these new requirements on the Council's accounts are as follows:

Deferred Premiums on Early Repayment of Debt

3.7.3 The Council's Balance Sheet at 31 March 2007 included £17.583 million relating to premiums paid by the Council incurred on the early redemption of debts which were replaced as part of debt restructuring exercises in previous years. In accordance with the requirements of the 2007 SORP, these balances have been charged to the opening General Fund Balance and subsequently reversed out to the Financial Instruments Adjustment Account (FIAA) in line with statutory guidance.

3.7.4 An annual charge in relation to this balance of £0.397 million has been written off in line with the existing schedules to the General Fund in accordance with the guidance.

3.7.5 In line with the new requirements, premiums (£0.751 million) and discounts (£0.755 million) on debt rescheduling during the year have been charged/ credited to the Income and Expenditure Account (net credit of £0.004 million).

Soft Loans

3.7.6 Two loans to the Aberdeen Exhibition and Conference Centre Ltd (AECC), totalling £26.2 million, approved in 2005, have been disclosed as soft loans under the 2007 SORP requirements as they were given at preferential rates. In accordance with the SORP, the fair value of these loans were calculated at 31 March 2007 using market interest rates and an adjustment of £11.955 million was made to the carrying value of the loans on the Balance Sheet. This reflects the effective loss incurred by the Council when making the loans as they are deemed to contain an element of financial assistance. As these loans were to a subsidiary of the Council, the adjustment has been charged to the Long Term Investment to reflect the additional investment provided.

3.7.7 An annual charge of £0.874 million, based on the difference between the actual interest received and that due using the market interest rate during 2007/08 has been written back to the carrying value of the loan.

Stepped Loans

3.7.8 The Council's long term borrowing portfolio includes loans with variable rate terms which are lender option borrower option arrangements (LOBOs) and in accordance with the new SORP their effective interest rate must be calculated to meet the new requirements.

3.7.9 The carrying value of £63.893 million for these loans at 31 March 2007 has been adjusted by £2.046 million against the opening General Fund Balance. In line with the statutory guidance this adjustment has then been transferred to the FIAA, cancelling the impact on the General Fund.

3.7 Financial Instruments (cont'd)

- 3.7.10 An annual charge of £0.447 million, based on the difference between the actual interest paid and that due using the effective interest rate during 2007/08 has been made to the Income and Expenditure Account and credited to the movement on the General Fund in 2007/08 in accordance with the statutory guidance.
- 3.7.11 Further details of all the new required disclosures for the Council's financial instruments are included on pages 91 to 96 of the accounts. As required, the fair value of all financial instruments have been disclosed in these notes, based on the information provided by the Council's professional advisors, Sector.
- 3.7.12 In calculating the fair value of the Public Works Loan Board (PWLB) loans, Sector have used the rate for new borrowing as per the interest rate notice (number 064/08) for Fixed Rates for transactions agreed on 31 March 2008. The PWLB has also provided figures based on the prevailing interest rate of the loans, which is significantly different from the Sector figures, as follows:

Sector (as disclosed in the accounts)	£412.342 million
PWLB	£440.067 million
Difference	£27.725 million

The carrying value of these loans is £348.401 million.

The SORP and statutory guidance do not state which rates are to be used for calculating the fair values of this type of loan, therefore either method is deemed to be acceptable.

3.8 Financial Pressures

- 3.8.1 As reported in our previous Report to Members, the Council is continually faced with significant financial pressures.
- 3.8.2 The Council approved a range of savings and cost reductions in its 2008/09 Budget on 14 February 2008, in order to achieve a balanced budget. The total net savings that were agreed amounted to £26.927 million. However, in addition to this, and included within the base budget, are further savings, including those approved by the Transformation Strategies for Adult and Children Services of £12.7 million, and savings identified through management control of £7.7 million. The total savings budgeted to be achieved in 2008/09 is therefore £49.7 million.
- 3.8.3 The Interim Chief Executive and the City Chamberlain reported in their "*Financial Strategy for 2009/10*" report to the Budget Monitoring Board on 27 October 2008, that the latest forecast for 2008/09 is predicting an overspend of £9.524 million. This will be reduced to £1.924 million following non-recurring funding support of £7.6 million from the Capital Fund.
- 3.8.4 The financial pressures impacting on the reported position are detailed below.

3.8 Financial Pressures (cont'd)

Health and Social Care Services

3.8.5 The largest area of service where cost pressures continue to be prevalent is within Social Work services. The current projections are reporting an overspend of £12.6 million in the Social Work budget. The Health and Care budgets previously disaggregated to the three Areas, along with some elements which remained within Strategic Leadership, have been re-aggregated to create a Social Work budget, following the appointment of the Social Work Programme Director.

3.8.6 Recent reports to the Budget Monitoring Board have noted that within the Transformational Change (Children's Services) budget, since this was agreed, the Council has had two inspections which have raised concerns regarding significant capacity issues in Children's Services. The Service therefore requires a long term strategic plan linked to improvement and revised projections suggest £1 million of savings will be achieved during 2008/09, compared to a budget of £6.7 million.

3.8.7 In addition, with regard to Commissioning/ Self Directed Support, external work has been commissioned to analyse the potential for reducing high cost packages potentially in Learning Disabilities. However, revised projections suggest £1 million of savings can be achieved during 2008/09, compared to a budget of £4.15 million.

Equal Pay and Modernisation

3.8.8 The Council has carried out a job evaluation exercise as part of Equal Pay and Modernisation (EP&M) and the proposals were agreed with Trade Unions in August 2008. The Council is now working closely with the Trade Unions to secure collective agreement. 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 may be submitted following completion of the job evaluation exercise and the Council is working to manage this risk. The planned implementation date is 1 May 2009.

3.8.9 Approximately 8,500 employees will be affected by EP&M. A provision of £8.330 million was included in the 2007/08 accounts to cover the ongoing costs that will have to be met by the Council in respect of the commitment to backdate outcomes for those with equal pay compromise agreements in response to claims made under equal pay legislation. A further amount of £1.923 million has been earmarked from the General Fund for payment in 2008/09. This represents an increase in the pay bill of 7.1%.

3.8.10 In view of the delay in implementing the whole EP&M solution, budgeted savings of £6.37 million for 2007/08 were not met. Actual savings for 2008/09 will depend on a final implementation date.

3.8.11 Prior to the final round of compromise agreement sign up sessions, there were 538 cases outstanding at the Tribunal Office. A large number of these were re-grievances that the Council was working through with their legal adviser. The Council expects that the number of claims will decrease to around 100. The outstanding liability of these cases is difficult to assess until the Council establishes the implications of each case in light of recent case law, however, the balance is estimated to be around £1.6 million.

3.8 Financial Pressures (cont'd)

3.8.12 The Council has adopted a two phased approach to workforce planning. Phase one is linked to the balancing of the 2009/10 budget. A Council-wide request for voluntary severance is expected to lead to a reduced headcount by the beginning of 2009/10. Phase two is being taken forward as a parallel process with the restructuring of the Council which the new Chief Executive has been tasked with. The Council anticipates having a workforce plan for each of the new services linked to the budget and service planning. Preparatory work has been carried out in terms of age profiling; succession planning strategy and a corporate HR strategy 'People First' has been adopted.

Energy Costs

3.8.13 A contingency was incorporated into the 2008/09 budget to cover for the additional cost of energy. In its most recent budget monitoring report, the Council has reported that there will be additional costs of approximately £2.1 million, and therefore the contingency will be fully committed.

Waste Disposal

3.8.14 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, one of which is currently in use.

3.8.15 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 9 in the Council's accounts.

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 2008 the "cash-backed" fund balances and reserves held by the Council totalled £35.005 million (at 31 March 2007 - £48.142 million), as detailed in Table 4 below:

Table 4 – Fund balances and reserves

Fund balances and reserves	2006/07 (Restated) £m	2007/08 £m	Movement £m
General Fund	14.361	17.943	3.582
Housing Revenue Account	0	6.491	6.491
General Fund balance	14.361	24.434	10.073
City Improvements Fund	0.539	0.505	(0.034)
Lord Byron Fund	0.005	0.005	0
Capital Fund	32.369	8.716	(23.653)
Insurance Fund	0.868	1.345	0.477
Other Funds and Reserves	33.781	10.571	(23.210)
Total Reserves and Balances	48.142	35.005	(13.137)

3.9 Reserves and Balances (cont'd)

3.9.2 As reported earlier, the General Fund balance has increased by £10.073 million in 2007/08 as a result of:

- ❑ an operational deficit for the year of £12.709 million
- ❑ transfers from the Capital Fund of £16.291; and
- ❑ an increase in HRA working balances of £6.491 million.

3.9.3 The most significant other movement is within the Capital Fund which has decreased by £23.653 million during the year. This movement can be analysed as follows:

Table 5 – Capital Fund

Capital Fund	£m	£m
Balance brought forward from 2006/07		32.369
Additions:		
Receipts from Property Disposals	4.640	
Revenue Interest	1.756	6.396
Deductions:		
Principal Debt Repayment	(10.751)	
Capital Expenditure (HRA)	(13.871)	
Capital Expenditure (General Fund)	(5.427)	(30.049)
Balance at 31 March 2008		8.716

3.9.4 Commitments at the year end against the General Fund balance of £17.943 million total £12.354 million, and commitments against the Housing Revenue Account of £6.491 million total £1.391 million, resulting in uncommitted balances at 31 March 2008 of £5.589 million and £5.1 million respectively.

3.9.5 The uncommitted General Fund balance of £5.589 million is expected to increase to £10 million after taking into account the prior year adjustment to be processed in respect of NDRI (£4.4 million) and the Scottish Governments permission to capitalise £10 million of earmarked pay cost liabilities in relation to redundancy and equal pay costs. There are additional risks relating to additional exit costs, HMRC inspection outcomes, and a revision to the forecast outturn.

3.9.6 There is clearly a need to restrict the level of contribution from the General Fund to support the budget for 2008/09 to ensure the retention of a reasonable level of working balances.

3.9.7 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 Reserves and Balances (cont'd)

3.9.8 Initial forecasts of savings required to balance the 2009/10 budget are £24.962 million. In a response to this, Chief Officers have been asked to develop options for reducing the cost of planned services by up to 6% of gross expenditure in 2009/10, which achieve savings of approximately £30 million. Along with this is a programme aimed at establishing staff interest in voluntary severance. The aim is to match voluntary severance requests and non-filling of vacant posts to planned service reduction wherever possible.

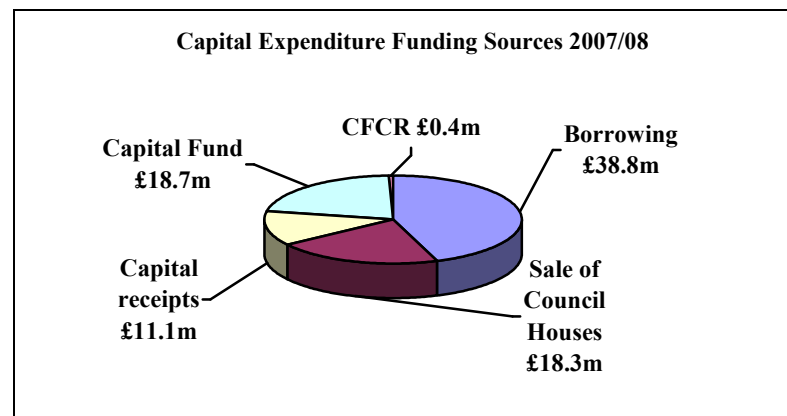
3.9.9 *Current Position*

We are aware that:

- a) Members and officers continue to monitor the projected outturn position and are taking further corrective action as required.
- b) Budget holders have been made aware of their responsibilities to deliver the savings wherever possible to help address the current budget position.

3.10 Capital Expenditure

3.10.1 Gross capital expenditure amounted to £87.304 million of which £33.926 million was on the Housing Programme. Funding for the capital expenditure was made up as follows:



3.10.2 The Service areas where the most significant capital expenditure was incurred within the General Fund were Arts and Recreation, Education, Office Accommodation and Roads and Transportation. The main projects were:

- Regional Sports Facility (£2.47 million)
- Walker Road Primary School Refurbishment (£1.545 million)
- Hanover Street School Refurbishment (£1.777 million)
- Lighting Replacement (£4.014 million)
- Wellington Road Dual Carriageway (£1.739 million)
- Marischal College Refurbishment (£5.781 million)
- Hill of Tramaud Landfill Site (£2.022 million)
- Rosewell House (£1.519 million).

3.10 Capital Expenditure (cont'd)

3.10.3 The main item of capital expenditure within the Housing Programme was the Modernisation Programme (£7.155 million) and Heating System Replacement (£6.347 million).

3.11 Capital Accounting

3.11.1 The Council complied with the 2007 SORP's new requirements and introduced a Revaluation Reserve and a Capital Adjustment Account (amalgamating the balances on the Fixed Asset Restatement Account and Capital Financing Account) at 1 April 2007.

3.11.2 The main movements on Fixed Assets during 2007/08 were

- ❑ additions of £84.152 million, including £33.244 million on Council Dwellings, £12.237 million on Operational Land & Buildings, £14.948 million on Infrastructure Assets and £11.452 million on Assets under Construction.
- ❑ Revaluation gains of £174.346 million, including £148.717 million on Operational Land & Buildings and £24.330 million on Investment Properties.
- ❑ Revaluation losses of £139.058 million, including £107.152 million on Operational Land and Buildings and £26.401 million on Assets under Construction.
- ❑ disposals of £13.114 million, including £10.974 million of Council Houses.

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

3.11.3 During the year, the Council entered into a Public Private Partnership in relation to the development of schools in the City, which is known under the banner of Aberdeen Schools 3Rs Project ("Reorganise, Renovate, Rebuild"). As a result, the schools currently on the Balance Sheet have been revalued to take into account the reduced useful life, and an impairment of £34.282 million has been posted to the Balance Sheet.

3.11.4 In May 2008 the Council took the decision to close five infant/ primary schools as part of a rationalisation of the school estate. A further revaluation of the properties was undertaken in the light of the Council's decision. The revaluation reflecting a change in use for the properties reduced the value by £5.386 million to £7.840 million. Since the decision to close the schools was taken after the year end there was no requirement to reflect this adjustment in the accounts other than by a disclosure note.

3.12 Group Accounts

3.12.1 The SORP requires authorities to prepare a full set of group accounts in addition to their single-entity accounts where they have an interest in other entities (excluding the Pension Fund). The Council has prepared group accounts in accordance with these requirements and the following table details their interest in other entities and the basis of consolidating the results within the Council's group accounts.

Table 6 – Group entities

	ACC Control	
	2006/07	2007/08
Subsidiaries		
Aberdeen Exhibition and Conference Centre (AECC)	100%	100%
Mountwest 343 Ltd	100%	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%
Aberdeen Sports Village	-	50%

3.12.2 The Group's net expenditure of £536.813 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £130.729 million.

3.12.3 The Group Balance Sheet shows the Total Assets less Liabilities to be £757.071 million, compared with the Council's single entity Balance Sheet total of £1.025 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 £321.47 million. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.

3.12.4 All of the subsidiaries' and associates' accounts have been prepared on a going concern basis. These accounts have been audited and there were no qualifications included in the audit opinions. The Council's group accounts have also been prepared on a going concern basis.

3.12.5 The 2007 SORP introduced new requirements that additional details of registered charities and trusts should be disclosed in the accounts. The Council included the additional disclosures for the Charitable Trusts Reserve as a number of the Council's charitable trusts are registered charities and the related reserve is therefore not available for general use. Details are included in Note 18 to the Group Accounts.

4.1 General Governance/ Audit Committee Arrangements

- 4.1.1 Revised political governance structures that aligned with the management structures were approved by the Council 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 Following the appointment of the Interim Chief Executive in August 2008 and in response to some of the issues raised in the Best Value report, further changes to the management and governance structures were made on 1 September 2008. The interim structure created executive leads for Social Work, Education, Housing and Environment and Infrastructure and re-instated a city-wide scrutiny of Social Work activity. Other scrutiny arrangement changes included review of the role of committees and the introduction of additional groups to consider the impact and outcomes of the budget pressures in 2007/08, 2008/09 and beyond.
- 4.1.3 The Council has accepted all the recommendations made by the Accounts Commission arising from the Best Value audit. An all Party Leadership Board has been established to take ownership of the improvement plan. A peer group of advisors has been established and regular meetings have been held to implement the recommendations of the Accounts Commission.
- 4.1.4 The audit committee role was transferred from the Continuous Improvement Committee to the Scrutiny Panel. The Scrutiny Panel remit, approved on 1 September 2008, includes:

- Overseeing the performance of the audit function
- Receiving all reports from External Audit, and
- Ensuring the Council meets its legal obligation through:
 - a) Reviewing the reliability and robustness of financial information;
 - b) Ensuring compliance with audit legislation;
 - c) The preparation of reports on avoidable losses; and
 - d) Approval of the annual internal audit programme, consideration of audit reports and the introduction of procedures to ensure compliance with audit recommendations.

- 4.1.5 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

4.2 Annual Governance Statement

- 4.2.1 The Council has a Local Code of Corporate Governance adopted in May 2002 (the Local Code). The Code was subsequently revised and updated in 2005 and 2006. The Council, through its Continuous Improvement Committee, monitors progress towards full delivery of all aspects of its Local Code, by way of annual reports to that Committee. These reports form the basis of the annual corporate governance statement included in the Council's financial statements document.

4.2 Annual Governance Statement (cont'd)

- 4.2.2 The 2007 progress report was presented to the Continuous Improvement Committee on 6 May 2008 and the Local Code is to be revised in line with the updated CIPFA/ SOLACE framework and related Scottish guidance. In addition, this revision will reflect the improvement agenda set out by the Accounts Commission following its Hearing in May 2008.
- 4.2.3 Although we are not required to audit compliance with the Council's Code we reviewed the statement and the Council's processes to inform our view of the governance arrangements in place. We are satisfied that the Council has identified the key areas where work is still required to ensure full compliance with the Code.
- 4.2.4 In the Statement on the System of Internal Financial Control, included in the Council's financial statements, the City Chamberlain reported that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control. However, a number of areas of weakness were identified which were of particular significance during 2007/08 for which action has already been taken or is underway.
- 4.2.5 In our report 2008/12: *Financial Statements Audit Plan*, issued on 11 June 2008, we also concluded that for the main financial systems reviewed, with the exception of fixed assets, capital accounting and budgetary control, the majority of expected key controls appeared to be in place and no material weaknesses were identified that would impact significantly on our year-end testing. The key controls for fixed assets and capital accounting are mainly covered by year-end processes and our detailed testing of these areas during our audit of the accounts did not reveal any material errors or control weaknesses.
- 4.2.6 In Scotland there is no statutory requirement for local authority bodies to conduct an annual review of the effectiveness of their system of internal control and prepare a Statement on the System of Internal Control (SIC), as there is for bodies in England and Wales. However, authorities in Scotland are encouraged to produce a SIC on a voluntary basis.
- 4.2.7 The Council already has in place arrangements for an annual review of the Local Code which covers both financial controls and all other governance arrangements, including risk and asset management that would be required for an annual governance statement.
- 4.2.8 In June 2007 CIPFA, in association with SOLACE, published a revised framework – *Delivering Good Governance in Local Government*. This framework represents a change in the available good practice and recommends that the annual review of internal controls should be reported in an Annual Governance Statement. The 2008 SORP will be revised to incorporate this change.
- 4.2.9 A guidance note for Scottish authorities was issued by CIPFA/ SOLACE in May 2008, to assist authorities in complying with the *Delivering Good Governance in Local Government Framework*. In light of the Accounts Commissions Findings and Recommendations, the development of the Local Code in 2008/09 will see a full review undertaken through self-assessment overseen by the all-party Leadership Board. An update on this work was presented to the Continuous Improvement Committee on 9 September 2008 and the refreshed Code will be developed and delivered through the improvement plan established by the Council in response to the Accounts Commission.

4.3 Members

- 4.3.1 The Council put a training programme in place for all members following the May 2007 elections. Induction training was attended by all new members and covered a wide range of topics include the Code of Conduct, financial matters, ICT awareness, standards and scrutiny and Best Value. Further training has been undertaken by 38 of the 43 elected members during the year.
- 4.3.2 Job descriptions are in place for all members. Personal Development Plans (PDPs) have not been compulsory but all members are being actively encouraged to have one. Informal one to one meetings were held with members after the elections and PDPs are to be developed.
- 4.3.3 The Council's protocol on multi-member wards is being reviewed, however, members have worked out their own ways of working informally together. There are some areas of duplication of work where constituents contact all members in a ward and seek individual responses. Similarly, there is an increase in work being submitted by members for typing and the number of surgeries being held has increased compared to levels prior to the election.

4.4 Shared Services

- 4.4.1 A Central Procurement Unit (CPU) has been set up with Aberdeenshire Council following a review carried out by external consultants. The staffing requirements were identified in order to achieve what was required and a three year programme is in place to get a full staff compliment on board. The CPU has identified a programme of 20 commodities with business cases for each, which anticipated joint savings of £25 million over the next five years.
- 4.4.2 The CPU works closely with Scotland Excel and is recognised as one of the four Regional Hubs of Expertise.
- 4.4.3 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

2007/08 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 2007/08 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 Reliance on Internal Audit (cont'd)

- 4.5.2 In our Financial Statements Audit Plan Report no 2007/12, issued on 11 June 2008, we noted that *“During 2007/08 the Internal Audit Service has continued to operate below strength due to difficulties in recruitment. This has resulted in a number of planned projects from the 2007/08 agreed internal audit plan being put on hold. For the areas on which we intended to place reliance for our Financial Statements audit, we have agreed to carry out specific projects as part of our audit outputs which are due to be reported separately”*.
- 4.5.3 As a result of our additional unplanned work required for Best Value leading up to the hearing in May 2008, and additional time required by both our team and Council officers for the year-end audit, a number of the additional projects planned for 2007/08 have not yet been reported to the Scrutiny Panel. Some have been reported in draft and other findings discussed with officers. We took the results of the interim work into account in planning and undertaking our year-end audit work. Two projects have been carried forward to be undertaken during the 2008/09 audit as part of the Best Value follow-up work that is required to allow the Controller of Audit to report back to the Accounts Commission in May 2009. Now that the year-end audit is complete we will finalise drafts of the remaining outstanding projects and discuss these with officers. The Continuous Improvement Committee, and latterly the Scrutiny Panel, have been kept informed of progress with the audit and the reasons for delays, throughout the year.

2008/09 audit

- 4.5.4 The Internal Audit Manager reported in his *“Internal Audit Plan 2008/09”* to the Continuous Improvement Committee that he has continued to experience difficulty in attracting replacements for staff who left the section in early 2007. The current shortfall is two Senior Auditors and two Auditors out of an establishment of nine staff.
- 4.5.5 In order to address this shortfall it was agreed by the Continuous Improvement Committee in March that a package of audits would be identified for placement with a firm of professional accountants. A firm has been selected and a formal agreement is about to be signed to undertake seven pieces of work, which are to be completed by the end of January 2009. Taking this agreement into accounts, delivery of the 2008/09 plan is now on schedule to be completed.

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. In our Report to Members on the 2006/07 audit, we reported that at the request of Audit Scotland, we had undertaken a review of the Council’s actions relating to one particular property disposal. As a result of this review the Council undertook a wide ranging review of property disposals.

4.6 Investigation into Disposal of Properties (cont'd)

Further Reporting

- 4.6.2 At the request of Audit Scotland we reviewed the outcome of the Council's investigation. On 29 November 2007 we reported to Audit Scotland on our review. We concluded that the Internal Audit investigation was thorough and covered the aspects committed to by the Chief Executive and the Corporate Director of Resources Management.
- 4.6.3 Following consideration of our report the Controller of Audit issued a statutory report expressing concern that the Council may have suffered a potential and significant loss of capital receipts as a result of weaknesses in governance and accountability.
- 4.6.4 When we first brought the issue to the attention of senior management in August 2006 action was taken to ensure that control processes and procedures were made more robust. Certain property advisory services were awarded to an external party following a tendering process and new procedures were implemented regarding authorisation of any property disposals. The Council informed Grampian Police and made the audit reports available to them. At this point Grampian Police have not concluded their investigation.

4.7 Finance Section Resources

- 4.7.1 During the course of the year-end audit we sought explanations for areas where initially explanations were unavailable, or raised questions on aspects of accounting which later required audit adjustments, in some instances material. This, together with the volume of errors identified, may have arisen due to senior staff having additional pressures to deal with this year resulting in their scrutiny of the draft accounts being less rigorous than it might have otherwise been. However, a review of the resources available within the finance section may reveal that additional resources are required on an ongoing basis. We are aware that the City Chamberlain has committed to review the breadth of resources within the finance section and the available skills sets to ensure that it is able to maintain a robust financial system to produce accounts and other information which is both timely and accurate.
- 4.7.2 Last year we requested that the Council work to improve the quality of the information presented to us for audit. While there has been improvement there are still some areas where there could be further enhancement in the timeliness, clarity and robustness of information provided. We believe greater rigour in the production of the accounts would have additional benefits to the wider production of management information and reporting throughout the year.

4.7 Finance Section Resources (cont'd)

4.7.3 There are a number of areas where finance staff have committed to review systems and procedures during 2008/09 to ensure that the financial statements are more robust going forward. These areas include:

- Whole of Government Accounts
- Accounting for Non Domestic Rate Income (refer to 3.3.3 above)
- Provision for Council Tax bad debts
- Recoverability of statutory penalties raised
- Depreciation methodology for housing improvements
- Accounting for retentions.

The necessity for such a range of reviews is indicative of a weakness in the robustness of the accounting processes and monitoring and review procedures.

4.8 National Fraud Initiative

4.8.1 During 2007/08 we continued to monitor the Council's participation in the 2006/07 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. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified by a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

4.8.2 During 2007/08 the Council completed work on the 2006/07 exercise. Our detailed review of the exercise resulted in no significant comment being made; we noted minor input errors which were also made by other councils, and which could have led to erroneous estimates of savings being made. 22 frauds were discovered, and the total overpayments identified (including error as well as fraud) amounted to £378,302, of which some £196,000 are notional savings mainly relating to blue badges and payments to care homes. Recovery proceedings have begun for some £154,000 of the overpayments made. In its national report on the exercise published in May 2008 Audit Scotland noted that, in terms of its size, Aberdeen City Council was one of the seven councils achieving the highest yields in both the 2004/05 and 2006/07 exercises. The report also referred to disabled parking permits which were found not to have been returned to the Council after the death of the holder. The Council has now put procedures in place to ensure that such permits are cancelled.

4.8.3 We reported last year that the Council would be involved in a new data matching area, that of single person discounts for Council Tax. In fact, early this year a number of councils and assessors throughout Great Britain became concerned about the legality of the use of the Electoral Roll, and so the Council did not take part in this exercise during 2007/08. However, subsequent review of the Council's position means that it is likely to participate in this part of the 2008/09 exercise.

4.8 National Fraud Initiative (cont'd)

- 4.8.4 Although we noted in the 2006/07 Report to Members that the Council had shown considerable commitment to the exercise, we recommended that responsibilities were defined and work planned prior to the matches being received. We are confident from discussions with the corporate co-ordinator that effective arrangements have now been put in place.
- 4.8.5 The 2008/09 exercise began in October 2008 with the upload of data via the new secure Data File Upload facility which removes the need to send data by post. Following changes to the legislative framework in England and developing understanding of data protection good practice, new guidance has been issued on the fair processing notices issued to possible data subjects. The approach should be 'layered'; subjects receive a summary which directs them to condensed text which in turn directs them to the full text. Although legislation is not yet in place in Scotland requiring bodies to adopt this approach, it is regarded as good practice. The Council has put arrangements in place to comply with the new guidance in time for the 2008/09 exercise.
- 4.8.6 The 2008/09 exercise covers the same datasets as in 2006/07, but Disabled Parking Permits and Private Care Home Residents datasets are now mandatory, rather than risk-based. We will again monitor the Council's participation in the exercise. Corporate preparations for the new exercise have been full and efficient, and the data planned to be submitted is in place. All risk-based datasets have been taken, although duplicate checking software which has just been introduced means that it may be possible to scale down review of the creditors matches.

Performance

5.1 Performance Management and Reporting

- 5.1.1 Performance management and reporting are areas that have been recognised by the Council as requiring improvement. Improvement actions have been taken during 2007/08, including the implementation of the Covalent Performance Management System. We have reviewed this area as a separate project and will issue our draft report on this during November/December 2008.
- 5.1.2 In October 2007 the Council identified targeted cost reductions for the remainder of 2007/08 resulting from the Transformation Programme, mainly in the areas of Childrens and Adult Services. The majority of these targeted savings were not achieved by 31 March 2008 and were carried forward to be added to the targeted cost reductions for 2008/09. Accurate and timely performance management is essential to ensure that targeted cost reductions and savings are monitored and that appropriate remedial action can be taken if required.
- 5.1.3 Measures have been taken to improve performance measurement, reporting and accountability. The Budget Monitoring Board provides a mechanism for a robust challenge to performance management and to hold officers to account regarding the savings and cost reductions for which they have responsibility.

5.2 Single Outcome Agreement

- 5.2.1 In 2007 national and local government leaders signed a concordat which requires each local authority to produce a Single Outcome Agreement (SOA) detailing how it would contribute to national outcomes whilst meeting its own local priorities. In return the Scottish Government pledged to allow councils greater freedom, for example, by removing ring-fencing of funds.
- 5.2.2 Members approved the Community Plan and SOA in June 2008 and submitted it to the Scottish Government for approval. The outcomes and measures used for the draft were selected from existing approved strategies and plans, such as the Council's policy statement "*Vibrant, Dynamic and Forward Looking*" and the existing Community Plan. The Council had already committed to reviewing and updating its Community Plan over the time period set for preparation of the SOA, therefore the work to update the Community Plan and prepare the SOA became inter linked, with one document being presented to The Aberdeen City Alliance (TACA) and the Council.
- 5.2.3 The 2008/09 SOA was signed by the Council, TACA and the Scottish Government on 17 November 2008 and plans are being prepared to produce the 2009/10 agreement.



5.3 Risk Management

- 5.3.1 In 2006/07, we issued our report 2007/06: *Risk Management Follow-up Review*, which reported progress with the implementation of improvements to the risk management systems of the Council. Previously we had noted that, within the overall improvements that were needed to risk management, service risk procedures in particular needed to be strengthened.
- 5.3.2 At that time, some actions were slightly behind the originally agreed timeframes however the progress made demonstrated that the Council had taken the development of risk management arrangements seriously. The new framework, which was partially implemented, is designed to strengthen risk management at service level and to link service and corporate risk management effectively.
- 5.3.3 The nature of a number of the actions was such that they required ongoing attention and the framework that was being implemented should have enabled this to be achieved through the service planning and quarterly monitoring review process. It was important that the CMT continued to monitor the robustness of the information provided to ensure that the framework was used properly to help the Council identify and manage risk promptly and effectively.
- 5.3.4 We planned to follow up our 2006/07 report during 2007/08 and issued a request for an update to the agreed action plan in April 2008. Following a number of reminders to Services and discussion with the City Chamberlain this follow-up has now been postponed to 2008/09. However, given the findings discussed in the following paragraph little further progress appears to have been made and a significant amount of work still requires to be undertaken to ensure that the risk management arrangements of the Council work effectively.

5.3.5 Internal Audit carried out a review during 2007/08 to assess the adequacy of the Council's risk management processes. Its overall opinion was that the Council's overall risk management processes are unsatisfactory. While it was acknowledged that the Corporate Risk Register was updated in August 2008, the standard of the Services' Risk Registers were assessed as requiring considerable work to achieve a good standard. The main issues which have been identified in their report are as follows:

- The Council's Risk Management Strategy document does not contain a clear statement of policy and objective and does not assign an owner for the risk management process.
- Resource capacity for development of risk management activities is confirmed to the Financial Services Manager whose duties form a small part of his overall responsibilities.
- There is no consistent methodology for the measurement of risk, for the setting of risk targets, and for the monitoring of progress towards reducing risk to acceptable levels.

The Council has agreed to implement the recommendations made by Internal Audit.

5.3.6 The Council is currently utilising additional resources to develop the Strategic and Service's Risk Registers and is working to produce a manual by February 2009.

5.4 Efficient Government

Background

5.4.1 The Scottish Government 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 are compulsory for 2007/08.

Efficiency Statement

5.4.2 The Council produced its Efficiency Statement and lodged it with the Scottish Government by the deadline of 31 August 2008. This reported the following efficiency gains for 2007/08:

Table 7 – Efficiency Gains

Efficiency Gains	2006/07	2007/08	Movement
	£m	£m	£m
Cashable Savings	6.390	3.251	(3.139)
Non Cashable Savings	0.100	0.249	0.149
Recurring Savings	4.340	3.273	(1.070)
Total Efficiency Gains	10.830	6.773	(4.060)

5.4.3 The recurring savings achieved in 2006/07 continued to generate savings in 2007/08. The figures reported above for 2007/08 are new efficiency savings made in addition to the £4.340 million recurring savings identified in 2006/07.

5.4.4 Subsequent to submitting the return, a further £1.7 million savings have been identified in relation to corporate procurement.

5.4.5 Key areas which have contributed to the efficiency gains in 2007/08 are:

- ❑ Shared procurement with Aberdeenshire Council results in efficiency gains arising from lower unit cost of purchase or from obtaining better quality at the same cost.
- ❑ A reduction in lost rental income from houses which were unavailable for rent has seen cashable savings of £1.236 million in 2007/08.
- ❑ The Council has adopted new technology to achieve efficiency gains both through improved customer service and reduced cost of service delivery. An example of this is the use of web based recruitment, where the unit cost of handling web based applications is £0.17 instead of £2.18 for conventional applications sent through the post, resulting in an efficiency gain of £42,102.

5.4.6 Following the successful use of the Citistat process to reduce the number and turnaround time of un-let houses, the technique has been applied to a number of other processes to probe into areas for improvement. The technique has been applied to varying degrees to city cleansing, delayed discharge from hospital, education, social work, rent arrears, roads and sports.

5.5 Statutory Performance Indicators (SPIs)

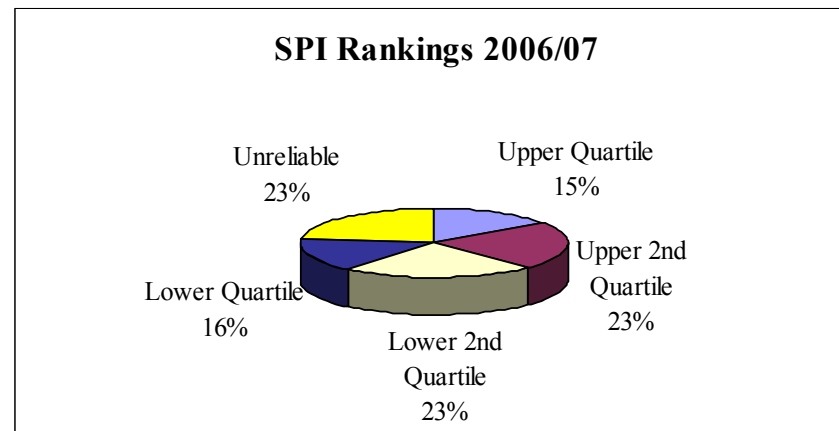
SPI Information

5.5.1 Our report 2008/02 *Statutory Performance Indicators Planning* issued on 22 April 2008 highlighted concerns around individual services' procedures for compiling the SPIs, and followed on from our 2005/06 Management Letter and our assessment in 2006/07 that six SPIs were then unreliable. The Council has put improved arrangements in place, and in 2007/08 we assessed three indicators as unreliable, all of which were also unreliable in 2006/07. Adult and Children's Respite Care share a common system, and testing by the service showed insufficient data quality to make the figures reliable. Housing Response Repairs is partially unreliable due to problems with the computer system holding the data, but manual records were used to increase the level of reliability, although it was not possible to make it wholly reliable. In the case of two of the newly reliable indicators, the Council did extensive testing to ascertain areas for improvement and provided staff training to address the issues identified.

5.5.2 The Council met the deadline of 31 August for submitting information to Audit Scotland and also for publishing the SPIs.

Council Performance

5.5.3 The SPIs cover a wide variety of council functions and it can be difficult to make comparisons between councils and between the same council across years. Nevertheless, there are some comments which can be made based on the results of the Council for 2007/08 and published cross-council figures for 2006/07, the latest year for which comparative figures are available. We have concentrated on the areas of best and worst performance, but to set them in context, in 2006/07 performance in relation to other councils was as follows:



5.5.4 There are 32 councils, so if a ranking is within the range 1 to 8, the council is in the upper quartile, and so on. Rankings are available for 82 measures, and the chart shows that Aberdeen City Council was in the two upper quartiles for 31 of these, with 19 measures having unreliable data, leaving 32 within the lower two quartiles. (Rankings are only provided for a selection of the SPIs, and the three unreliable indicators contain a large number of measures, so appear disproportionately large)

5.5 Statutory Performance Indicators (SPIs) (cont'd)

Adult Social Work

5.5.5 In 2006/07, 2 out of 8 indicators were unreliable, and in 2007/08 one was unreliable, reflecting poor data recording within the CareFirst computer system. An internal investigation highlighted areas for improvement, and the Social Work service has begun to address them, resulting in a reliable assessment for the Home Care indicator in 2007/08. Carefirst is a crucial information system, and the Council needs to improve it. The Social Work Inspection Agency (SWIA) inspection report published in May 2008 found, among other things, that *'Health and care services should improve the quality of data entered into CareFirst and develop robust systems for monitoring this.'*

5.5.6 In terms of actual performance, excluding those SPIs assessed as unreliable, no adult social work indicators have figured in the upper half of Scottish council performance in the past four years, while three figures were in the lowest quartile in 2006/07. Comparing the Council's performance across years, there was no overall trend between 2006/07 and 2007/08; some measures improved slightly whilst others worsened slightly. Addressing SWIA's other recommendations should help to improve performance as measured by the SPIs.

Libraries

5.5.7 In 2006/07 Aberdeen City Council was the best performing council for the number of times that learning centre terminals were accessed, with 2,023 usages per thousand population. This was substantially in excess of the reported usage for any other authority and the Council's data was more than twice the national average. It fell slightly in 2007/08 to 1,907 usages per thousand population. The number of learning centre users as a percentage of the population has grown consistently over the past four

years to 17% in 2007/08, and in 2006/07 the Council was sixth highest. On the two measure of general library usage it was also in the upper quarter of councils, although it is in the bottom quartile for additions to library stock for adults. Use of general libraries fell slightly in 2007/08, but this is in line with national trends.

Development Services

5.5.8 In 2006/07 the Council was 16th with regard to the percentage of householder planning applications processed within two months, processing 79.9% in that time in 2006/07 and 77.8% in 2007/08. Both householder and non-householder applications have seen a consistent decline since 2003/04 in the percentage processed within two months and ranking relative to other councils. This is partly due to staffing issues, and action has been taken to begin to address this.

5.5.9 None of the Council's population was covered by a Local Plan in the period covered by the SPIs, but work has been ongoing for some time, and coverage will be 100% in 2008/09.

5.5 Statutory Performance Indicators (SPIs) (cont'd)

Housing

5.5.10 There are two SPIs dealing with the handling of tenancy changes, and for both the Council was in the lower half of councils in 2006/07. The rent loss due to houses being left empty between tenancies was 3.4% of the total rent due in the year, which is almost twice the Scottish average, and gives the Council a position of 23rd. However, there has been a consistent upward trend, and in 2007/08 there was a significant improvement in the figures to 1.4%, which should change the Council's ranking once 2007/08 comparative figures are published. The Council was also worse than the urban average for the amount of arrears owed by tenants at 10.5% of net rent due; again these figures improved slightly during 2007/08 to 8.9%. Conversely, the Council was the best performing Scottish council in length of time to complete its duty towards homeless people at 9.8 weeks in 2006/07 (10.8 in 2007/08), and in the upper quartile for the number of rehoused households representing within a year, at 3.7%. Both figures worsened slightly in 2007/08, in line with the national shortage of affordable housing.

5.6 Improving the School Estate

5.6.1 In March 2008 Audit Scotland published the national report '*Improving the School Estate*'. This considered the impact, at both local authority and Scottish Government level, of the Scottish Executive's strategy to improve the condition of the school estate.

5.6.2 The main findings were that by 2007 36% of Scottish schools remained in poor condition, and that it could take another 20 years to bring all up to standard. Many schools have been improved via Public-Private Partnership (PPP) schemes, and councils must ensure that they can fund them long term, but not at the expense of the maintenance of other schools. Better design is needed for new schools to improve environmental conditions (especially overheating), and sustainability should be built in as a matter of course. Long term demand planning varies considerably between councils, but should operate for at least ten years ahead to inform decisions on school property. Joint working between councils could be improved.

5.6.3 Aberdeen City Council has entered a PPP scheme, using the non profit distributing organisation (NPDO) model, to develop schools in the city, which is known as the Aberdeen Schools 3Rs Project ("Reorganise, Renovate, Rebuild"). The agreement was signed on 21 December 2007 with an estimated capital cost of £130 million which will result in two secondary schools being replaced, seven new primary schools built and one refurbished, along with the incorporation of two special schools within the new developments. The Council will pay an annual unitary charge to the contractor which covers the costs of developing the assets and associated facilities management. The agreement lasts for thirty years following which the schools will be transferred back to the Council.

5.6 Improving the School Estate (cont'd)

- 5.6.4 As the Council's external auditors we were required to form an independent view on how the Council has discharged its stewardship of public funds. We had previously expressed our provisional view on the proposed transactions. On 14 April 2008 we expressed our final 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.
- 5.6.5 As a result of the current economic climate and the difficulties being experienced by the financing bank, the private partner contractor is re-assessing its financing package.

5.7 The Impact of the Race Equality Duty on Council Services

- 5.7.1 In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:
- Examine the impact of the duty on council services and people from minority ethnic communities;
 - Consider the main factors that affect the performance of councils on race equality;
 - Set out how councils can now improve their performance; and
 - Make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to place in supporting councils meet their race equality responsibilities.
- 5.7.2 Following publication, Audit Scotland will track councils' progress in addressing the recommendations.

5.8 Climate Change and Carbon Management

Scotland's Climate Change Declaration (SCCD)

- 5.8.1 Climate change and its effects are now recognised worldwide. In response to this, the Scottish Government worked with councils to develop a common declaration of intent on climate change to which local government and other stakeholders could commit.
- 5.8.2 The SCCD was launched on 16 January 2007 and was signed by the Aberdeen City Council in February 2007, along with all 32 local authorities. It was developed to improve climate change leadership, legislation, culture change, programmes of action, scrutiny, resources and accountability. The declaration commits the Council to prepare a publicly available plan to cut greenhouse gas emissions, to set timescales and targets, and to publish an annual progress report.
- 5.8.3 An updated version of the declaration was approved by the Policy and Strategy Committee on 2 September 2008. There were no substantive changes to the text of the declaration or the established framework for Local Government action, with the main changes being in relation to the replacement of references to the previous national Administration and its Ministers.
- 5.8.4 An annual progress report was also presented to this Committee based on the seven commitments set out in the SCCD. This report provided evidence of the Council's activities undertaken towards achieving the agreed commitments and will inform the reporting on actions taken towards reaching local outcomes within the council's Single Outcome Agreement, agreed with the Scottish Government.

Climate Change Action Plan

- 5.8.5 In October 2002, Aberdeen City Council was the first council in Scotland to publish a Climate Change Action Plan, and one of the first in the UK. This is set to be reviewed and updated over the next year.

Carbon Management Programme

- 5.8.6 As a result of the work undertaken by the Council, in 2003 the Carbon Trust offered to work with the Council, and 15 others in the UK, to help develop, test and roll out its Local Authority Carbon Management Programme.
- 5.8.7 A Carbon Management Programme, incorporating a Priority Action Plan, was approved by the Environment and Infrastructure Committee in May 2004. This sets the Council's carbon emissions baseline and a target to reduce emissions. The target is to reduce CO2 emissions by 10% by 2010 against a 2002/03 baseline, with a further target to reduce CO2 emissions by 15% by 2015 against the 2002/03 baseline.
- 5.8.8 A change in building improvements and street lighting using 100% renewable energy means that the Council is currently far ahead of its targets with total savings made in 2005/06 of 31%.
- 5.8.9 In recognition of the work carried out, in 2007, the Council won the "**Energy Efficiency: Public Sector**" category in the Carbon Trust/Daily Telegraph Innovation Awards 2007 for its innovative and long-standing commitment to cutting its carbon emissions. It recognised that the Council was already ahead of its emissions reduction plan with the implementation of a range of measures including the use of more energy efficient technologies and measures in procurement, design and construction.

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 Statement of Accounts 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 reflects the Board's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether the statement covers all risk and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.



Appendix II – Definition of Material, Significant and Trifling in Relation to the Audit Adjustments

We are required to express an opinion on whether the accounts present fairly the financial position of the Council. In arriving at that opinion we need to assess any weaknesses, misstatements and errors discovered during our audit testing. Additional information or events in the period between the balance sheet date and the date we sign our audit report must also be considered.

In order to help us to assess the impact of errors we classify them as material, significant or trifling.

Materiality is set at the start of the audit using statistical formula and following consideration of risk. The value for significant and trifling are set in relation to the materiality figure.

Material misstatement and adjustments

Material misstatements are misstatements that, in our opinion, mean the financial position is not presented fairly. Material misstatements discovered during our audit are discussed with management and agreement reached over the required revision for the final audited accounts. Where no agreement is reached to make a material adjustment we would need to consider qualifying our audit opinion.

Significant misstatements and adjustments

Significant items are lower in value than material items, but still of a size that might give rise to the financial statements not being presented fairly, particularly if there are several of them, which in total would become material. The Council has the option of adjusting for significant misstatements or not. The impact of any significant misstatements not adjusted for in the final audited accounts would need to be considered and where the combined impact of non-adjusted items was material, this could lead to a qualified opinion. Reasons for non adjustment of significant misstatements are required to be reported to the members.

Trifling errors and adjustments

Trifling errors are those with a fairly low value, and which do not affect the fair presentation of the financial statements. These are recorded and summarised during the audit and the overall total net impact is considered. Individual trifling errors would not require adjustment. If the net total of trifling errors becomes significant or material then there will be an issue to be considered for our report unless the Council agrees to adjust the errors.



Appendix III - Follow-up Action Plan for 2006/07

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at November 2008
3.9.12	R1 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	Achieved. Changes put in place reflect a better alignment between financial responsibilities and management responsibilities in service delivery.
3.9.12	R2 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	Proposed changes to the budget setting and monitoring process have been reported to the Resources Management Committee on 25 November 2008. In particular, where overspending is forecast, Directors will propose remedial measures and/ or compensatory savings for members to agree. Members will be expected to endorse remedial action or to agree compensatory savings.



Appendix III - Follow-up Action Plan for 2006/07

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at November 2008
4.5.4	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.	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	<p>No success in filling vacant posts. An external service provider has been appointed and work has recently commenced</p> <p>On 28/10/08, the Continuous Improvement Committee agreed to request a report on the staffing issues within Internal Audit. Specifically <i>“to instruct officers to investigate the possibility of retraining existing staff to remedy the recruitment difficulties; and to review job requirements and submit a report on the creation of a newly designed post to the next meeting of the Resources Management Committee on 27/01/09”</i>.</p>



Appendix III - Follow-up Action Plan for 2006/07

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at November 2008
4.7.5	R4 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	Key contracts have been identified for each area of review. Monthly updates on progress are issued. At onset of work in January 2009, all key contacts will be checked to ensure that they are still the same.



Appendix IV – Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at September 2007	Progress as at November 2008
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.	Yes	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.	Training has now been provided by CIPFA on governance and scrutiny.



Appendix IV – Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at September 2007	Progress as at November 2008
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.	Yes	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.	This is now implemented through incorporation within scope of individual audits as appropriate
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.	Yes	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.	The 2007/08 Annual Efficiency Statement has been published. Corporate Guidance has been prepared by the Head of Performance Management & Quality Assurance on the capture of both cash releasing and non-cash releasing efficiencies and has been considered by the Corporate Management Team.



Appendix IV – Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress as at September 2007	Progress as at November 2008
5.7.12	Contracts for provision of services under resource transfer agreements should be finalised as soon as possible.		Yes	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.	The Council has signed copies of the final agreed resource transfer agreements, although these are not yet signed. Where NHS Resource Transfer is used (in whole or in part) to commission services from external providers, contracts are in place for some, but not all of these services. Without a complete review of all services funded through Resource Transfer, it is not currently possible to determine the number of contracts which are in place and which are not. This is not just an issue for resource transfer projects, but applies across the whole of the Social Work Service.

