

Aberdeenshire Council

**Report to Councillors and the Controller of Audit
on the 2009/10 Audit**

October 2010



 **AUDIT SCOTLAND**



Aberdeenshire Council

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Key Messages

We have given an **unqualified** opinion on the financial statements of Aberdeenshire Council. The accounts are now available for publication and are an essential means by which the council accounts for its stewardship of public money

Overall, the council's total revenue spending was £2.8 million less than budget. Within this positive outturn, however, there were significant overspends in Social Work and Housing (£1.97 million) and Transport and Infrastructure (£0.9 million), offset by underspends in Education, Learning and Leisure Services (£2.4 million), Corporate Services (£0.9 million) and interest and loans charges (£1.1 million).

The council aims to maintain a general fund working balance of £7 million. At 31 March 2010, the council had an unallocated general fund balance of £9.5 million which is £2.5 million in excess of its target. The council recognises that current reserves provide a cushion for unexpected events or emergencies and has no plans to use its existing reserves to manage the expected reductions in income and ongoing financial pressures. The level of balances to be maintained will be kept under review as part of the council's strategic financial planning process

Our audit of the accounts identified a number of accounting issues which required to be corrected before the accounts were certified. There was significant delay in processing these adjustments and, hence, the completion of the audited accounts. As a result, the audit and finance teams were under significant pressure to ensure that the accounts were certified by the target date of 30 September. The net impact of these adjustments was to increase the deficit on the Income and Expenditure Account by £19.551 million, and reduce the total assets less liabilities and net worth in the Balance Sheet by £9.807 million. There was no impact on the general fund.

We were satisfied with disclosures made in the annual corporate governance assurance statement and the adequacy of the process put in place by the council to obtain assurances on systems of internal control. We assessed key financial systems as having a satisfactory level of control for our purposes.

Outlook

The financial challenges facing the Scottish public sector are well documented. There remains uncertainty about what the financial implications for Aberdeenshire Council will be and the settlement for local government is not likely to be finally known until January 2011. The council has shown a good understanding of the financial challenges it faces and has made good early progress in addressing these. Latest estimates are that the council will require to make budget savings of between £42.2 million and £72.9 million by 2012/13. This equates to between 8% and 14% of the net revenue budget for the current year. Decisions on future budgets have yet to be made, and options remain under discussion amongst elected members and senior officers.



In establishing its financial plans the council has made an allowance for a range of inflationary and other cost pressures and considered the extent to which new developments, priorities and responsibilities can be funded. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the council's overall objectives and priorities.

Reducing spending on staff will need to be a key component of the way in which the council responds to the challenges it face. The speed at which spending reductions are required may mean that some pragmatic solutions need to be adopted in the short term. This will need to be balanced with the need to ensure that the council has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money. The council's modernisation reviews, Workforce Strategy and Worksmart policy will be key tools in addressing this area.

Good asset management is essential to help achieve objectives and priorities, while getting best value from reducing resources. The wider economic situation also has serious implications for the management of the council's property portfolio, making it difficult to capitalise on surplus assets or maximise rental income. The council recognises the importance of good asset management and has recently approved a revised corporate asset management plan and capital plan for the next 15 years.

The Central Procurement Unit achieved the second highest score of all Scottish councils in the annual procurement capability assessment but there is still significant scope for the council to generate savings through improved procurement practices. To date, only £3.1 million of the £14 million potential net procurement savings identified by external consultants as achievable over the five year period to 31 March 2011 have been realised.

Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen as priorities and in which areas service levels will need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.

In June 2010, we submitted our final shared risk assessment and assurance and improvement plan to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. The local area network is led by Audit Scotland and we shall keep the council up to date with any changes to the Assurance and Improvement Plan.

The co-operation and assistance given to us by the Aberdeenshire Council councillors and staff during the year is gratefully acknowledged.



Introduction

1. This report summarises the findings from our 2009/10 audit of Aberdeenshire Council, focusing on the financial statements audit and any significant findings that have arisen from our review of the management of strategic risks during the year. A summary of the other reports issued during the year is provided at Appendix A.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan. The assurance and improvement plan can be found on our website at www.audit-scotland.gov.uk. Where relevant, we comment on issues identified in the assurance and improvement plan for investigation or monitoring by the local auditor.
3. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. The resulting reports have been sent to the council for their consideration and are also available on our website. Reports published in the last year of direct interest to the council include:
 - Improving public sector efficiency
 - Overview of local government in Scotland 2009
 - Protecting and improving Scotland's environment
 - Scotland's public finances – preparing for the future
 - Making an impact – overview of best value audits 2004-09
 - Roles and working relationships: are you getting it right ?
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. Instead, we expect the council to be aware of the risks it faces and have processes in place to manage them. Councillors should ensure that they are satisfied with the proposed management action, and that they have a process in place to enable them to monitor progress made in implementing the planned actions.
5. This report is addressed to councillors and the Controller of Audit and will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for the annual overview of local authority audits report later this year. The overview report is published and used by the Accounts Commission as the basis for its annual briefing to the Scottish Parliament's Public Audit Committee and Local Government and Communities Committee.



Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit opinion

7. We gave an unqualified opinion that the financial statements of Aberdeenshire Council for 2009/10 give a true and fair view of the financial position and the income and expenditure of the council and its group for the year. We also certified that the accounts have been prepared properly in line with relevant legislation, applicable accounting standards and other reporting requirements.
8. We were satisfied with disclosures made in the annual statement of assurance and the adequacy of the process put in place by the council to obtain assurances on systems of internal control.
9. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2009/10 accounts were generally satisfactory and we will continue to work with the council to help further improve them.
10. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to councillors and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
11. There was significant delay in processing the agreed audit adjustments (see below for a summary of the most significant adjustments) and the completion of the audited accounts. Our work on the unaudited accounts was concluded on 9 September and adjustments that required to be made to the accounts as a result of our audit were agreed at that point. Amended accounts were not received until 24 September, significantly later than the date agreed. Errors were then identified in the way adjustments had been made, requiring further corrections. While ultimately the accounts were certified by the deadline set, this caused undue pressure on both the audit and finance teams. It also meant that the audit of the Whole of Government Accounts was unable to be completed by the deadline set by the Scottish Government.

Key risk area 1



Accounting issues

12. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). With effect from 2010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth, but there are still significant issues to be addressed.
13. The 2009 SORP requires that some elements of IFRS accounting are to be adopted early. This year councils had to account for PFI/PPP projects on an IFRS basis. Aberdeenshire Council has two school PFI/PPP projects in place. Under IFRS requirements, if it is considered that the council has control of a PFI/PPP asset, then the asset should appear on the council's balance sheet. Examples of control include specifying the services to be provided from a particular asset, and regulating the price paid for the services. As a result, it is deemed that the council does exert the necessary control aspects and accordingly the schools assets have been added to the council's balance sheet for 2009/10. After accounting for depreciation, the value of the school PFI/PPP assets carried on the balance sheet was £146 million.
14. The council have provided a comprehensive financial commentary in the Explanatory Foreword to the financial statements. However it could be improved through clearer explanation of how the figures in the accounts relate back to the budget set for the year. This would make it easier for councillors and the public to follow and make the accounts more transparent.
15. The impact of the economic climate is referred to within the Explanatory Foreword. The commentary could have been enhanced with more detail, in particular giving a wider range of specific examples of where and how the economic climate and the reduction in available funding has impacted significantly on the accounts. Looking ahead, the Foreword provides a valuable opportunity to explain the implications of reduced funding and set out how the council has managed this.

Key risk area 2

16. We were satisfied that the audited accounts are in accordance with the 2009 SORP. The council has adjusted the financial statements to reflect audit findings. Immaterial unadjusted errors were reported to Head of Finance and to the Scrutiny and Audit Committee on 20 September 2010 in our ISA 260 '*Communication of audit matters to those charged with governance*' report. Details of significant accounting issues arising in the course of our audit are summarised below. The council also required to make adjustments in respect of a significant number of smaller items. The net impact of adjustments was to increase the deficit on the Income and Expenditure Account by £19.551 million, and reduce the total assets less liabilities and net worth in the Balance Sheet by £9.807 million. There was no impact on the general fund.



17. **Depreciation of revalued assets.** For fixed assets revalued on the first day of the financial year, the annual depreciation charge included in the unaudited accounts was based on the value of assets prior to the revaluation being processed. It is more appropriate to calculate depreciation based on the revised value. This resulted in significant changes to the accounts - the net cost of services being increased by £19.4 million, and net assets being reduced by £23.3 million. We highlighted this issue in 2008/09, although the amounts involved were much smaller due to the timing of the council's revaluation programme. Procedures had not been adjusted appropriately in response.
18. **Revaluation reserve.** The write down of the revaluation reserve included in the unaudited accounts was based on an incorrect calculation by the asset register system. This required a correction of £15.1 million to be made between the revaluation reserve and the capital adjustment account. This issue was highlighted in 2008/09 and corrective action was agreed. However, that did not happen.
19. **Valuation of PFI/PPP Assets.** PFI/PPP assets were revalued in 2009/10. However, the increase in land values had not been reflected in the draft accounts. This resulted in changes to the opening and the final 2009/10 balance sheet, increasing the carrying value of these assets by £14 million.
20. **Classification of Investment Properties.** The Council holds a significant number of properties which have been classified as investment properties. Assets should only be classified this way if they are held "solely for investment purposes and do not support the service or strategic objectives of the authority". Assets currently being classed as investment properties include units on industrial estates and business centres, which may be viewed as encouraging economic development. The Council has committed to undertaking a review of the categorisation of all fixed assets as part of the preparation work for the introduction of IFRS.
21. It is important that the council reviews the audit issues that have arisen in the course of the audit of the accounts and makes prompt and effective changes to its accounts preparation procedures where necessary. We will continue to discuss detailed issues with the finance team.

Key risk area 1

Group accounts

22. The diversity of service delivery vehicles used by local councils means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure. The council has interests in three subsidiaries and a total of four associates and joint ventures. Audit assurances were obtained through review of board minutes and audited accounts. All bodies within the group received unqualified audit opinions from their external auditors.



Trust funds

23. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. The date of full implementation has, however, been deferred by the Scottish Charity Regulator until 2010/11. For 2009/10, the Regulator will accept for its purposes the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
24. The council has identified a number of charitable trusts which have been inactive for a considerable period, or have outdated purposes, and is currently considering options for reorganising its existing charities.

Common good fund

25. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners, 'Accounting for the Common Good Fund'. This guidance, which recognises the legislative distinction of the common good as a managed fund, requires disclosure of these funds within the council's financial statements and the establishment of a separate common good asset register by March 2009.
26. A separate common good funds asset register is maintained. However, the asset register provided to us as part of the working papers package was incomplete as it did not include all of the assets of the Common Good Funds at 31 March 2010. We reported this issue in 2008/09, and the council had agreed to ensure that the asset register was complete for 2009/10. Although there was no impact on the financial statements for 2009/10, we consider it an important issue that the requirements of the LASAAC guidance in respect of common good assets are met.
27. When any asset is identified for disposal by the council the title deeds are checked to see if there are any conditions or burdens attached to the property. This would indicate whether or not it is an asset of the common good fund, enabling appropriate action to be taken. The council's view is that reviewing the title deeds at point of sale represents reasonable steps for maintaining the fixed asset register. It considers that a title deeds search of all council assets would be time consuming, expensive and possibly inconclusive and as such would not represent best value.
28. We are content that the approach adopted does not present any significant risk of material misstatement of the council's accounts or that of its group. The council should, however, keep its approach under review to ensure that it fully supports its responsibilities for the stewardship of common good assets.



Legality

29. Each year we request written confirmation from the Head of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in our audit programmes. The Head of Finance confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to councillors' attention.

Financial reporting outlook

Compliance with International Financial Reporting Standards (IFRS)

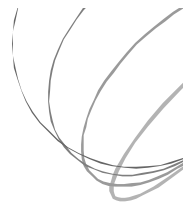
30. Along with the majority of Scottish Local Authorities, the council engaged CIPFA/PWC to provide technical advice and support through the IFRS transition process. Although there are no formal deadlines in advance of 30 June 2011 when the 2010/11 accounts are due, the early production of a restated opening balance sheet and shadow accounts is accepted good practice. Other key tasks include improving information and systems to introduce component accounting for fixed assets; and identification, review and classification of all lease arrangements.
31. The council's progress against its plan for the move to IFRS accounts has slipped significantly. Its target date for preparation of a restated balance sheet was 28 February 2010, but it has yet to complete this. Once this is available we will review it and provide feedback as necessary. Clearly there still remains much to do before the council is in a position to prepare IFRS compliant accounts and delays compress the time available to resolve any difficulties.

Key risk area 3

32. The Scottish Government is in discussion with local government about areas where statutory adjustments are required to mitigate the impact on the general fund.

Carbon reduction commitment

33. In April 2010 a new and complex system for charging for carbon emissions was introduced by the EU. The council is required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. The council estimates that carbon allowances will cost it in the region of £0.788 million in the first year of the scheme.



34. The council has a Climate Change Action Plan which is aimed at reducing its carbon emissions, although carbon emissions actually rose by 3% in the last year. Progress against the action plan is regularly reported to the council's Sustainability Sub Committee and an annual report was presented to the Policy and Resources Committee in September 2009. The Climate Change Action Plan has been revised following completion of work with the Carbon Trust's Carbon Management Revisited Programme but has yet to be approved by the council.



Use of resources

Introduction

35. The efficient and effective use of resources is critical to achieving Best Value. Councils have significant resources in terms of finance, people and property. It is important that these resources are used in the most effective way to help the council to achieve its objectives and to support the delivery of high quality services.

Financial results

36. In 2009/10, Aberdeenshire Council spent a total of £876 million on the provision of public services, £802.8 million on revenue services and £73.2 million on capital projects. The council's net operating expenditure in 2009/10 was £573.6 million. This was met by central government grants and local taxation of £524.9 million, resulting in an income and expenditure account deficit of £48.7 million.
37. As the council is required to set its council tax on a different accounting basis this deficit is subject to further adjustments. The main adjustments are to ensure that capital investment is accounted for as it is financed rather than when fixed assets are consumed, and that retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. The impact of these adjustments in 2009/10 is to reduce the deficit by £33.9 million, meaning general fund balances of £14.8 million were used during the year. The deficit is further reduced by a £8 million transfer to the general fund from other cash backed reserves. After taking all of these adjustments into account, the general fund reduced by £6.8 million during the year.
38. The budget set for 2009/10 was based on a Band D council tax level of £1,141 with a planned contribution of £11.7 million from the general fund working balance. Overall, actual expenditure was £2.8 million less than budget, with significant underspends reported by Education, Learning and Leisure (£2.4 million), Corporate Services (£0.9 million) and Capital Financing Charges and Interest on Revenue Balances (£1.1 million). Significant overspends were identified in Social Work and Housing (£1.97 million) and Transport and Infrastructure (£0.9 million). The reasons for these variances are set out in the Revenue Budget Outturn report presented to councillors in September.
39. While the general fund movement is a key measure in managing the council's annual budget, the income and expenditure position indicates the underlying level of resources the council has consumed or built up during the year. The effect of this will ultimately impact on future revenue and capital budgets as assets are maintained and replaced and pension commitments met.



Financial position

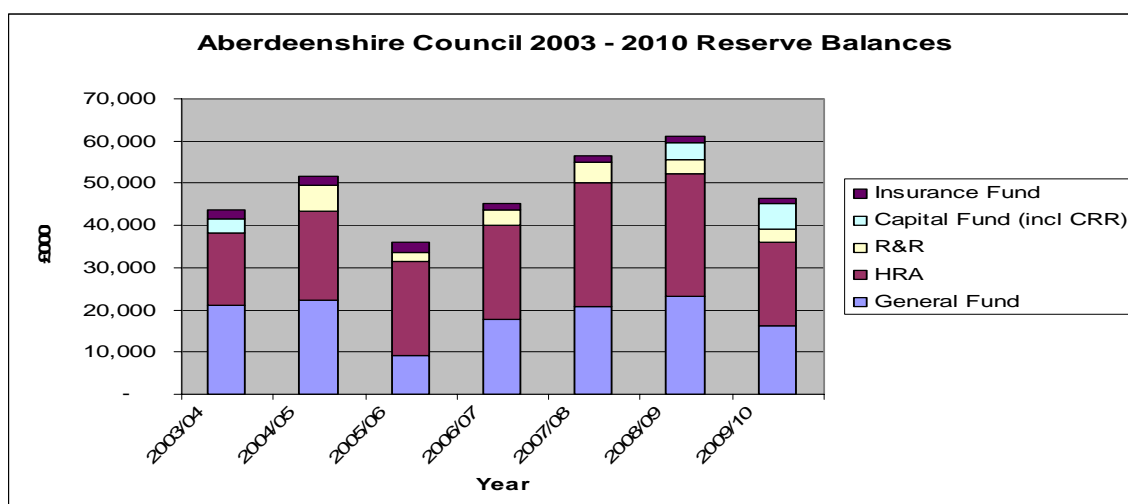
40. Exhibit 1 shows the balance in the council's cash backed funds at 31 March 2010 compared to the previous year. Funds include a repair and renewal fund for financing expenditure incurred in repairing, maintaining, replacing and renewing fixed assets, an insurance fund to be used to meet any uninsured losses, and a capital fund which may be used to defray capital expenditure or repay loan principal. At 31 March 2010, the council had total funds of £46.4 million, a decrease of £14.8 million on the previous year.

Exhibit 1: reserves and funds

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	16.303	23.101
General Fund – Housing revenue account balance	19.772	29.086
Repair and Renewal Fund	3.173	3.506
Insurance Fund	1.218	1.487
Capital Fund	5.912	4.012
	46.378	61.192

41. The council aims to maintain a general fund working balance of £7 million. At 31 March 2010, the council had earmarked amounts totalling £6.8 million, leaving an unallocated balance of £9.5 million which is £2.5 million in excess of its target. The Policy and Resources Committee has recently agreed that this balance should be used to fund ring fenced funding carried forward to 2010/11 and that the remainder be transferred to the Invest to Save Fund.

Exhibit 2: cash backed reserves





42. Exhibit 2 shows the movement in the council's cash backed reserves in the period 2003 to 2010. Reserves grew steadily in the three years to 2008/09 but were significantly reduced in 2009/10 - falling by almost a quarter overall. This is in line with the council's strategy for managing its reserves. The council recognises that current reserves provide a cushion for unexpected events or emergencies and has no plans to use its existing reserves to manage the expected reductions in income and ongoing financial pressures. The level of balances to be maintained will be kept under review as part of the council's strategic financial planning process.
43. Exhibit 3 provides some information about the council's financial position compared to other Scottish mainland councils.

Exhibit 3: key financial position indicators

Ratio	Description	Aberdeenshire Council		All Mainland Councils
		2008/09	2009/10	2009/10
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term.	63%	68%	33% - 191%
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves.	11.7%	8.1%	3.7% - 19.6%
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt.	147%	162%	48% - 295%
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets.	380%	526%	200% - 755%

44. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.



Group balances and going concern

45. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to give a true and fair view of all council activities. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £289.3 million, mainly due to the inclusion of Joint Board pension liabilities. All group bodies' accounts were, however, prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
46. The council has an obligation to meet a proportion of the expenditure of the Joint Boards of which it is a constituent member. All of these boards (Grampian Joint Police Board, Grampian Joint Fire and Rescue Board and Grampian Valuation Joint Board) had an excess of liabilities over assets at 31 March 2010 due to the accrual of pension liabilities. In total these deficits amounted to £839.2 million (2008/09 £543.7 million), with the council's group share being £300 million (2008/09 £194.4 million).

Capital performance 2009/10

47. The council's prudential indicators for 2009/10 were set in March 2009. Capital expenditure in 2009/10 totalled £73.2 million, an increase of £12.2 million compared with 2008/09. The trend in capital investment and sources of funds is set out in Exhibit 4. Government grants have increased mainly due to extra funds received as part of the concordat agreements and specific funding for various capital initiatives.

Exhibit 4: sources of finance for capital expenditure 2005/10

	2005/06 Actual £M	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M
Capital Receipts, Grants and Contributions	6.266	19.522	34.174	25.318	27.861
Advances from Loans Fund and Capital Accruals	22.646	25.918	14.987	23.984	26.060
Revenue Financing	17.587	11.362	5.602	11.692	19.251
Total	46.499	56.802	54.763	60.994	73.172



48. The council revised its capital programme during the year to reflect significant slippage in the general fund programme and underspends on the HRA programme carried forward from the previous year. The revised capital programme experienced further slippage of £7 million during 2009/10, representing 9% of the revised programme. This was mainly due to delays in concluding contracts relating to improvements to the council's housing stock. All of this slippage was added to the 2010/11 capital programme.

Pension liabilities

49. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. The council's estimated pension liabilities at 31 March 2010 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £267 million, increasing from £190 million in the previous year. Based on the latest full actuarial valuation of the fund, the actuary has recommended that the council's contributions should be 19.2% and 19.3% of pensionable pay in 2010/11 and 2011/12 respectively.

Treasury management

50. As at 31 March 2010, the council held temporary investments of £17.6 million (£29.7 million at 31 March 2009). The current economic climate means that interest rates on investments are low – the council received £1 million in interest and investment income this year compared to £4.6 million last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates and so its average cost of borrowing is 3.85%. The council took advantage of market conditions in 2009/10 to reschedule £65 million of PWLB debt. A further £10 million of PWLB debt was repaid early. Overall, these transactions generated discounts of £1.6 million and annual interest savings of £3.2 million.

Outlook

Financial planning

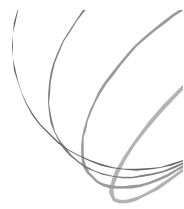
51. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated at £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.



52. There remains uncertainty about what the financial implications for Aberdeenshire Council will be. The UK government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. The settlement for local government is not expected to be finally known until January 2011. Negotiations are continuing and the Scottish Government is consulting on an end to the council tax freeze.
53. While recognising this uncertainty, all Scottish councils have been working with the Centre for Public Policy and the Regions (CPPR) to estimate the potential impact on the government funding they receive. This provides a basis for financial planning and understanding the level of savings that they will require to make to balance future budgets. Current projections are that a 14% real terms reduction will be experienced over 2011/14, heavily weighted toward 2011/12 reflecting the deferral of 2010/11 cuts. In cash terms this is equivalent to annual reductions in grant of 4%, 1.7% and 1.7% respectively.
54. The council has shown a good understanding of the financial challenges it faces and has made good early progress in addressing these. In setting the 2010/11 budget the council agreed to freeze its council tax, identifying in year savings of £11.2 million to meet known spending pressures and planned growth. The latest monitoring report (as at 30 June 2010) forecasts an overspend of £6.5 million for the year. The council is taking steps to address this overspend and anticipates that the next budget monitoring report will reflect a fairly significant reduction from existing projections.
55. Latest estimates are that the council will require to make budget savings of between £42.2 million and £72.9 million by 2012/13. This equates to between 8% and 14% of the net revenue budget for the current year. Decisions on future budgets have yet to be made, and options remain under discussion amongst elected members and senior officers.

Key risk area 4

56. As well as addressing the anticipated reduction in funding, councils also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and responsibilities. In establishing its financial plans, the council has made an allowance for these factors. This means that savings targets need to be greater than would be required to simply offset the anticipated reduction of grant.
57. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the council's overall objectives and priorities. Real terms grant reductions are expected to continue until at least 2015/16, and the council will continue to face tough decisions about spending and priorities.



Managing people

58. The significant reduction in funding in the years ahead will clearly have implications for the council's workforce. Reducing spending on staff will need to be a key component of the way in which the council responds to the challenges it face. The speed at which spending reductions are required may mean that some pragmatic solutions need to be adopted in the short term. This will need to be balanced with the need to ensure that the council has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money.
59. As part of the implementation of single status, the Policy and Resources Committee approved, in September 2006, a programme of modernisation reviews covering service delivery requirements, the structure required to deliver that service, the numbers and levels of employees required and the job redesign and training and development requirements of employees. Last year we reported that 17 reviews had yet to be implemented. As at October 2010, 7 of these have been completed, 8 were being implemented, 1 had been suspended and 1 had been withdrawn. Councillors have previously expressed concern about the slow progress being made and the consequential impact that this may have on staff.
60. In January 2009, the council approved a Workforce Strategy to provide a framework for addressing workforce issues. The strategy sets out the key elements the council needs to address in order to ensure it has a highly trained, flexible and innovative workforce able to deliver excellent services for the people of Aberdeenshire.
61. The strategy is supported by an Implementation Plan which identifies and prioritises twenty eight actions required to address the key elements included in the workforce strategy. The plan acknowledges that it will take approximately four years for all of the current planned activities to be completed.
62. In April 2010, the council approved a 'Worksmart' policy which supports flexible working (annualised hours, compressed hours, term time working, flexitime and homeworking) for all staff except teachers. The revised policy and guidance reflect the council's positive attitude towards flexible working and recognises the potential benefits for both employer and employee. So far, over 500 staff have benefited from the scheme and changed their working profile or pattern. The council estimates that, as a result of these changes, there was a reduction of 6,250 in business miles and nearly 15,000 commuting miles travelled in the first quarter of 2010/11.



Asset Management

63. The pressure to get the best out of the council's asset base and the money that is invested in it is greater than ever in the current financial circumstances. Effective management of council assets is essential to help the council achieve its objectives and priorities, while getting best value from its reducing resources. The wider economic situation also has serious implications for the management of the council's property portfolio, making it difficult to capitalise on surplus assets or maximise rental income.
64. The council recognises the importance of good asset management. A recent report to committee highlighted that *"it is essential that any expenditure in the Capital Plan provides for projects that meet business objectives and are linked to the strategic objectives of the Council, providing value for money and that are sustainable in the long term."* A revised corporate asset management plan has recently been approved which incorporates the council's capital plan for the next 15 years (2010-2025). Both plans include clear links to the council's 33 strategic priorities. The council intends to invest £831.7 million in its assets over the next 15 years.
65. The council also monitors the condition and suitability of its operational property portfolio. Although the percentage of the council's property portfolio assessed as in a satisfactory condition has increased from 68.5% in 2008/09 to 73.2% in 2009/10, significant levels of investment are still required to improve the portfolio. A maintenance strategy is currently being developed to address the critical backlog maintenance, which is currently estimated at £100 million. A further £62 million would be required to complete essential and desirable maintenance work.

Procurement

66. Improved procurement practices are an important source of savings. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
67. The council operates a Central Procurement Unit with Aberdeen City Council. Both these councils were assessed as 'conforming' councils with an overall score of 42%, the second highest assessment of all Scottish councils. Areas of noticeably stronger performance included collaboration (59%), performance measurement (56%), and procurement strategy & objectives (52%). The weakest area of performance was in contract and supplier management (21%).



68. In the past four years, the council has achieved a total of £3.1 million of the £14 million potential net procurement savings identified by external consultants as achievable over a five year period. As a result, there is still significant scope for the council to generate savings through improved procurement practices. The 2010/11 budget includes procurement savings of £2.8 million compared to the £1.4 million savings achieved in 2009/10.

Key risk area 4

Shared services

69. Shared services are one of the ways open to local authorities for reducing spending and sustaining essential public services. Aberdeenshire Council has operated a shared procurement service with Aberdeen City Council since 2007 and is currently considering developing a shared public transport unit with the City. Councillors and officers continue to explore options for other shared services with neighbouring authorities in order to reduce the council's cost base.



Governance and accountability

Introduction

70. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between councillors and officers.

Overall arrangements

71. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. Last year, the council assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment identified a number of areas for improvement, but overall, the results suggest that the council has a sound governance framework in place.
72. The council adopted a local code of governance in June 2004 and each year publishes a Statement of Assurance on corporate governance signed by the Leader of Council and the Chief Executive within the financial statements. The 2009/10 statement concludes that the council's corporate governance arrangements were adequate and operating effectively during the year and highlights that areas for further improvement have been included in the Corporate Improvement Plan. The statement has yet to be updated to reflect the CIPFA/SOLACE guidance.

Scrutiny

73. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account and support the modernisation agenda. The Scrutiny and Audit Committee meets regularly to receive reports from internal and external audit. It also undertakes investigations into areas of concern. Involvement in these investigations helps councillors to increase their understanding of the concepts of scrutiny and audit as well as the functions and operation of the council.
74. Last year we reported that the membership of the committee had changed significantly since the May 2007 elections, and this continued into 2009/10. These changes have again impacted on the committee's progress with its programme of investigations. The committee is well attended and complies with the majority of the expectations set out in CIPFA's guidance note '*Audit Committee Principles in Local Authorities in Scotland*'.



Roles and responsibilities

75. The Accounts Commission recommends that councils give priority to the continuous professional development of their members. The council's 'A Guide to the Role and Duties of an Aberdeenshire Councillor' requires Aberdeenshire Council councillors to undertake at least 36.25 hours Continuous Professional Development (CPD) each year. In the year to 31 March 2010, only 24 (35%) of councillors could demonstrate that they had met this expectation. In addition, only 39 (57%) have completed and returned their training needs assessment, and only 39 (57%) councillors have a personal development plan in place. Exhibit 5 summarises the position over the last three years.

Exhibit 5: councillor training

	2007/08	2008/09	2009/10
Completed 36.25 hours CPD	15 (22%)	40 (59%)	24 (35%)
Completed a Training Needs Analysis	41 (60%)	41 (60%)	39 (57%)
Completed a Personnel Development Plan	43 (63%)	43 (63%)	39 (57%)

76. Without appropriate training and development, councillors may not fully understand their responsibilities, and will be unable to fulfil their complex roles. Audit Scotland has recently published a report '*How councils work: an improvement series for councillors and officers, Roles and working relationships: are you getting it right?*' which includes a useful checklist for assessing current working practices.

Key risk area 5

Management changes

77. In June 2009, the council approved a revised organisational structure for the leadership and management of the council's services. The new structure reduced the number of directors from 7 to 5 and created a new post of Assistant Chief Executive.
78. In August 2010, two Directors left the employment of the council and have yet to be replaced. Whilst arrangements are in place to cover these roles, these changes put additional pressure on the remaining 3 Directors and reduce senior management capacity at a time of significant financial pressure. We have been advised that the council expects to have a new Director of Education, Learning & Leisure in place by March 2011. The Director of Corporate Services post has yet to be advertised.



79. We plan to review the circumstances surrounding the departure of these senior council officials and any associated costs as part of our 2010/11 audit. This is part of the routine audit at all councils. We will report our findings to the council once we have concluded our review.

Partnership working

80. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues. In addition, the council has a formal duty to initiate, facilitate and maintain a community planning process and ensure effective leadership within the Community Planning Partnership.
81. The council works well with its partners and is involved with a significant number of partnerships. A Partnership and Joint Working policy has been developed setting out criteria (accountability, public accessibility, internal governance, conduct of members, evaluation of the costs and benefits) against which council partnerships can be measured. To date, the council has assessed around two-thirds of its partnerships against these criteria.
82. The council continues to progress joint working with partners on property issues through the Public Sector Property Group, which is a sub group of the North East of Scotland Joint Public Sector Property Group. Members of this group include Aberdeen City Council, Grampian Fire and Rescue Service, Grampian Police, The Moray Council and NHS Grampian. Members of the group continue to work closely to deliver an integrated property strategy in response to the increasing need for greater efficiencies within the public sector.

Community engagement

83. The council is committed to community engagement and has been active in seeking the views of the local community, making widespread use of surveys. The citizens' panel, Viewpoint, continues to be used across the Community Planning Partnership and was awarded a Bronze at the 2010 COSLA Excellence Awards.
84. In September 2009, the Community Planning Partnership approved its Community Engagement Strategy which builds on the National Standards for Community Engagement and partners' existing engagement processes. The council is currently developing action plans to ensure successful implementation of the strategy. Early feedback from the February 2010 Citizens' Panel survey indicates that there is more work to be done to improve opportunities for residents to influence decision-making. The Partnership plans to focus on community engagement in a future Citizen's panel survey in order to assess the impact of the Community Engagement Strategy.



Internal audit

85. Internal audit plays a key role in the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Each year we review the council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. Our review concluded that Internal Audit complied with the majority of the code during 2009/10.
86. Auditing standards encourage internal and external auditors to work closely together to make optimal use of available audit resources. We relied on the work of internal audit in the following areas to support our work: cash income and banking, treasury management, and accounts receivable. We worked closely with internal audit to ensure that the extent of testing undertaken in these areas was sufficient for our purposes. We will continue to work with internal audit to ensure that we make the most effective use of our limited audit resources in 2010/11.

Systems of internal control

87. In his 2009/10 Annual Report the Chief Internal Auditor provided his opinion that, based on the internal audit work undertaken in the year, reasonable assurance could be placed on the adequacy and effectiveness of the council's internal control system in the year to 31 March 2010.
88. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:
- budgetary control
 - payroll
 - accounts receivable
 - business rates
 - cash income and banking
 - main accounting system
 - accounts payable
 - housing rents
 - council tax
 - capital accounting

Prevention and detection of fraud and irregularities

89. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected councillors and staff; and defined remits for relevant regulatory committees. Four cases were referred to the Standards Commission in the last year but no councillors were found to have contravened the councillor's code of conduct.

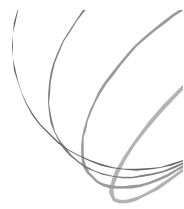


NFI in Scotland

90. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, 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 outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
91. The most recent data matching exercise was carried out in October 2008 and the national findings were published by Audit Scotland in May 2010. The council responded positively to this exercise and targeted resources at those cases which they felt would produce the best results. Three cases of housing benefit fraud were identified together with 33 errors totalling £56,000. The council prosecuted one of the claimants and issued administrative penalties in the other two cases.
92. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. The council should use this checklist to identify areas where they can further improve the planning and follow-up processes for dealing with NFI matches.

Housing Benefit

93. From April 2008, Audit Scotland took over inspecting the housing and council tax benefit functions from the Benefit Fraud Inspectorate in Scotland. The risks to Aberdeenshire Council's benefits service were initially assessed in October 2008. The assessment identified 14 risks to continuous improvement and the council prepared an action plan to address 12 of the issues raised.
94. In July 2010, the council completed a self assessment review of progress against the action plan, which was reviewed by Audit Scotland's specialist benefits team. The findings of this review have recently been reported to the Chief Executive. The review found that only 3 of the 12 risks had been fully addressed with a further 2 partly addressed. It also highlighted that the council took 34 days to process new claims during 2009/10, compared to the UK average of 25 days.
95. The council has been asked to provide its proposals for reducing the risks identified in the follow up review to enable the specialist benefits team to determine whether any further engagement is appropriate.



Public performance reporting

96. The council's annual public performance report 'Serving Aberdeenshire – a guide to council performance 2009/10' provides information, under each of the council's six main themes, on what the council has delivered in 2009/10 and identifies key actions for the coming year. A financial overview section is also included setting out how the council was funded and what it cost to deliver services during the year. In addition, the financial challenges facing the council in the coming year are highlighted together with a sample of responses from the 2010 Residents Survey. The report provides a balanced view of the council's performance highlighting both favourable and unfavourable results using a traffic light system.

Outlook

97. Governance and accountability issues are likely to be prominent as the council's operating environment and economic position becomes more difficult and the development of working in partnership with others increases.
98. We recognise the challenges posed by the single outcome agreements. The Accounts Commission acknowledges that single outcome agreements are still at an early stage of development. At this stage in the evolution of this new approach to planning, we are interested in the processes rather than just the outcomes. Partnership working is critical to the council's success and this has been recognised by the council who have included its partners from the beginning of the single outcome agreement process. We are developing our approach to the audit of partnerships and will increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes.



Performance management and improvement

Introduction

99. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its communities. The vision is effectively promoted by the councillor and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation, and a comprehensive performance management framework which is integrated with service planning and delivery.

Vision and strategic direction

100. The council has a clear vision of what it wants to achieve, and this is shared with its partners through the community plan and the single outcome agreement. Exhibit 6 sets out the council's corporate planning and improvement framework for cascading this vision through the council's strategic priorities to team and individual plans.

Exhibit 6: corporate planning and improvement framework





101. The council's corporate planning and improvement framework aims to bring together the council's strategic planning, performance management, performance monitoring and continuous improvement activities under one umbrella (Aberdeenshire Performs). Work is currently underway to map the service plans' objectives and performance measures against the council's 33 strategic priorities, 84 supporting actions and the Single Outcome Agreement outcomes. This piece of work is long overdue and is crucial to ensuring that the actions required to deliver the Single Outcome Agreement and the council's strategic priorities are clearly cascaded to the services responsible for delivering them. The new style service plans being developed for 2010/11 should ensure clear links between all of the council's key planning documents. New style local community plans will also be rolled out for the planning period 2010-2014.

Key risk area 6

102. The corporate planning and improvement framework includes a Corporate Improvement Plan aimed at bringing together all of the council's improvement activities to avoid duplication and ensure that they are prioritised and adequately resourced. The Corporate Improvement team established to develop the plan identified the characteristics that Aberdeenshire Council must demonstrate if it is to achieve its vision of being the best council. These characteristics were then used to develop the Corporate Improvement Plan under the key themes of Governance, Leadership, People, Performance and Reputation. The Corporate Improvement team are continuing to work to develop the 'Golden Thread' between performance management, reporting and planning at all levels.

Performance management

103. The Assurance and Improvement Plan concluded that the council has made good progress in delivering outcomes and quality services for communities but noted that there were gaps in performance information for a number of local outcomes where targets and timescales had yet to be confirmed or the baseline data was not available. The council introduced a new performance management framework in September 2010 in order to improve the quality of performance information reported. It is too early to tell how effective this framework will be in producing comprehensive quality information.

Key risk area 7

104. The council has recently reported progress against the Single Outcome Agreement to the Scottish Government and an annual report on performance against the Community Plan 2006-10 will be published shortly. This report will cover the 2009/10 financial year and will provide a snapshot of the year's achievements. We noted, however, that this final report of performance against the Plan does not provide a summary of progress made over the last four years to enable stakeholders to gauge the impact the Plan has had on service delivery and key outcomes.



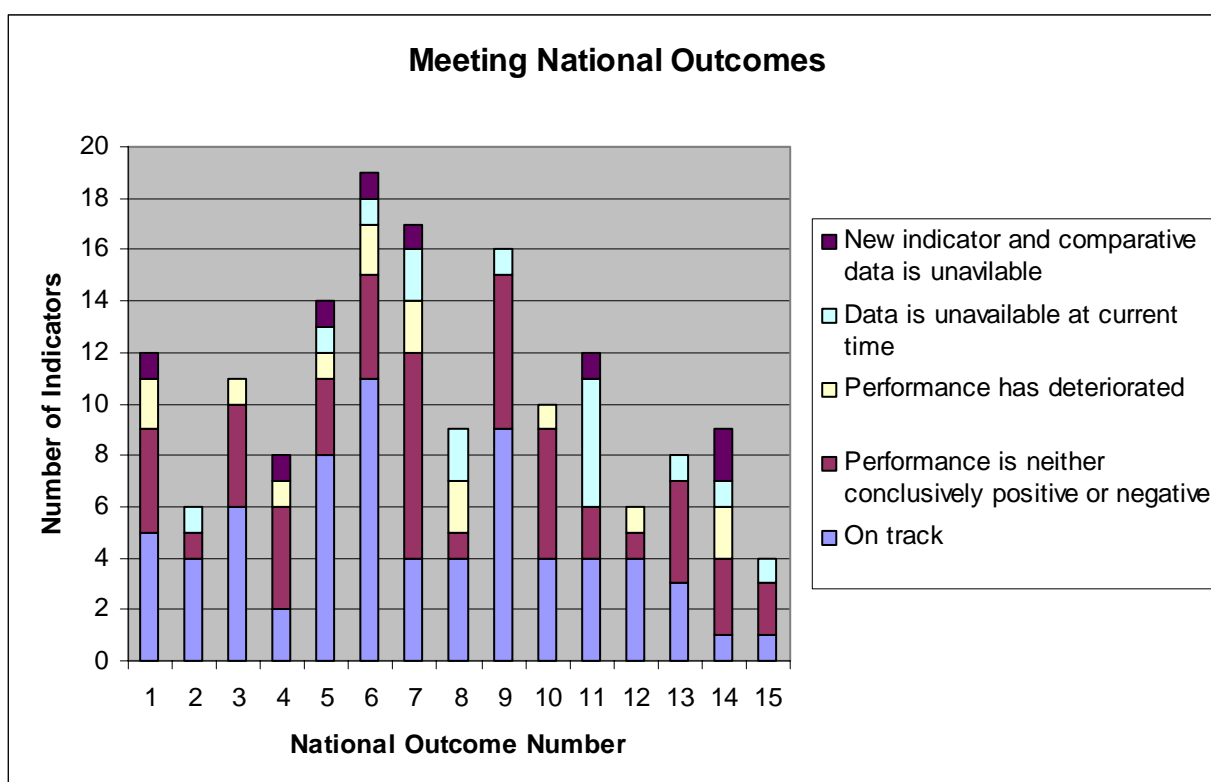
105. In previous years, performance monitoring against the council's strategic priorities was reported to the Policy and Resources Committee on a six monthly basis. These reports contained 'big picture' messages in a narrative style. This year the year-end monitoring was not submitted to the June meeting of the Policy & Resources Committee due to the introduction of Aberdeenshire Performs, the associated new style of service plans and the decision to align the monitoring with this framework. We have been advised that the report will go to the November meeting instead. Performance against some of the council's strategic priorities is included in the public performance report available on the council's website.

Key risk area 7

Overview of performance in 2009/10

106. The Community Planning Partnership has identified 161 indicators to measure its performance against the 15 national outcome targets set out in the Single Outcome Agreement. As at 31 March 2010, 24 (15%) of these indicators were unavailable or were new and had no comparative data available. Of the remaining 137 indicators, 51% have improved, 38% have declined and 11% have stayed the same.

Exhibit 7: performance against national outcomes





107. Exhibit 7 summarises progress in 2009/10 against each of the 15 national outcomes. During the year, there were some notable areas of improvement including the number of projects that showcase the advantages of innovative energy technology (increased from 3 in 2008/09 to 30 in 2009/10) and a 16% increase in the number of young people attaining accreditation through a variety of award schemes. The areas where performance is declining presents the greatest challenge for the council and its partners. These include percentage of major planning applications determined within 4 months (NO1), number of adult literacy learners (NO3) and percentage of children offered help within 28 days of referral (NO8).

Statutory performance indicators

108. The Accounts Commission has significantly reduced the range of statutory performance information (SPIs) that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and the development of the Best Value audit regime. The council's SPI information is published on its website. In addition to the 25 specified SPIs for 2009/10 the council is also required to publish local indicators which:

- demonstrate the council is securing best value
- assist stakeholders and other interested parties to compare performance both over time and between councils as appropriate.

109. The council has identified 49 local indicators which cover a wide range of activity including the percentage of spend with suppliers incurred under procurement contracts, the quantity of energy consumed by council street lighting, and the total number of attendances at cultural programme events supported by Aberdeenshire Council. Data on these indicators has been collected for 2009/10 as a baseline for reporting trends and comparisons in subsequent years. We noted, however, that few of these indicators include cost information which is crucial in assessing whether or not the council is securing best value in the delivery of its services.

Key risk area 7

110. Arrangements for the collection and reporting of the 25 SPI's specified for 2009/10 were generally satisfactory.

Best value

111. Best value 2 (BV2) is the next phase of Best Value audit. Its approach has moved on significantly from the first phase, which provided a baseline for how Scottish councils are performing. BV2 audits are more proportionate and risk based being founded on a shared risk assessment process involving other inspectorates. They are more focused on impact and outcomes and designed to provide a more rounded view of partnership working in a local area, and the difference it is making. BV2 forms an important part of the wider scrutiny arrangements for councils in Scotland.



112. The council received its initial Best Value audit during 2007/08, with the report published in June 2008. In response, the council prepared an improvement plan to address the issues raised in the report.
113. Until March 2010, the council received six-monthly monitoring reports setting out progress made in implementing the actions set out in the Best Value Improvement Plan. The last report, covering the period to December 2009, showed 70% of the actions were complete with the remaining 30% on schedule. The outstanding actions have been subsumed within the council's Corporate Improvement Plan. Progress against the Corporate Improvement Plan will be reported quarterly to the Corporate Improvement Board, chaired by the Chief Executive. We will continue to review progress against the outstanding Best Value actions as part of our 2010/11 audit.

Equality and Diversity

114. The Council's Multi Equality Scheme for 2009– 2012 was approved by the Policy and Resources Committee in January 2010. The Multi Equality Scheme brings together existing equality schemes on Disability, Gender and Race and anticipates the requirements of the Equalities Bill which will become law in October 2010. The development of the scheme was undertaken by a steering group with representatives from many equalities organisations as well as representatives from Aberdeenshire Council. The scheme sets out what the Council has done to date to improve outcomes for those who experience discrimination, and what actions it intends to take in the future to improve services for all users.

Risk Management

115. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
116. The council has made good progress in developing its risk management arrangements. More work is required, however, to fully embed risk management at all levels within the council and this is being addressed through the development of operational risk registers for all departments. General awareness training has been provided for staff and more is planned as services start to develop their operational risk registers.
117. A revised Risk Management and Business Continuity Strategy was approved in April 2010 together with detailed strategic outcome statements which show how each of the six key actions link to the council's wider strategic priorities. A high level implementation plan has also been developed detailing target completion dates and the lead officer for each action. Progress against the plan will be monitored by the Corporate Risk Management Steering Group, chaired by the Chief Executive.



118. The council delivers many of its services in partnership with other organisations. Although a high level community planning risk register is in place, it does not currently cover the operational risks associated with delivering services through partnership working. The Council has identified 39 separate partnership working arrangements and is currently assessing the level of risk for each. Once this review has been completed, any partnerships which are considered to be a significant risk will be required to develop and maintain a risk register.

Key risk area 8

119. Business continuity planning is a key element of any organisation's risk management arrangements. The council prioritised this area during 2009/10 and Business Continuity and Emergency Response plans are now in place for all services and schools. These plans cover each critical activity in order to minimise disruption due to major system failure or disaster. Procedures for testing and reviewing the effectiveness of these plans have been developed. A testing schedule is in place setting out what tests and at what frequency checks on the plans must be carried out. These are followed up by the Risk management team and the results are used to revise plans where required.

Outlook

120. Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen as priorities and in which areas service levels will need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.

121. The long term and complex nature of many of the outcome targets established through the single outcome agreement process also poses many challenges for performance management. In responding to short term and more structural funding difficulties, the council and its partners will need to be clear how they will continue to contribute to shared objectives and priorities – maximising impact from the available funds.



Appendix A

External audit reports and audit opinions issued for 2009/10

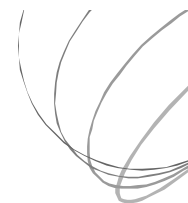
Title of report or opinion	Date of issue	Date submitted to Scrutiny and Audit Committee
Annual Audit Plan	31 March 2010	26 May 2010
Shared Risk Assessment: Assurance & Improvement Plan 2010-13		Submitted to Policy and Resources Committee on 10 June 2010
Report on financial statements to those charged with governance	14 September 2010	20 September 2010
Audit opinion on the 2009/10 financial statements	30 September 2010	To be submitted on 15 December 2010



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	11 & 21	<p>Financial statements</p> <p>Our audit of the accounts identified a number of significant accounting issues that required to be addressed. It is important that the council makes prompt and effective changes to its accounts preparation procedures where necessary.</p> <p>There was significant delay in processing the agreed audit adjustments and the completion of the audited accounts.</p> <p>Risk: potential misstatement of the financial position or performance of the council. If material amounts are involved, the accounts may be qualified.</p>	<p>The accounting issues will be discussed with the appropriate members of staff, and revised procedures put in place.</p>	<p>Head of Finance/ Chief Accountant</p>	<p>30 June 2011</p>
2.	15	<p>Explanatory Foreword</p> <p>The Foreword would be improved through clearer explanation of how the figures in the accounts relate back to the budget set for the year. It also provides a valuable opportunity to explain the implications of reduced funding.</p> <p>Risk: the accounts are not transparent and therefore difficult for readers to follow.</p>	<p>The 2010/11 IFRS based code includes a requirement to produce a reconciliation between the Comprehensive Income and Expenditure Account and the segment reporting analysis. This will show how the figures in the accounts relate back to those used for comparison with budgets for the year, and reference to this will be made in the Foreword. The content of the Foreword will also be reviewed.</p>	<p>Head of Finance/ Chief Accountant</p>	<p>30 June 2011</p>



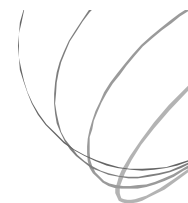
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	31	<p>International Financial Reporting Standards (IFRS)</p> <p>The introduction of IFRS is a significant change to local government accounting and will need to be effectively managed. The council's progress has is significantly behind its original plan.</p> <p><i>Risk: insufficient attention is paid to the introduction of IFRS, meaning that the council is unable to prepare compliant accounts in time.</i></p>	<p>The council has set up a Project Team, is working in conjunction with CIPFA and PWC, and has produced a detailed project plan which is monitored by the Scrutiny and Audit Committee. Although some actions are behind schedule, IFRS compliant accounts will be completed by the final deadline of 30 June 2011.</p>	<p>Head of Finance/ Chief Accountant</p>	<p>30 June 2011</p>
4.	55 & 68	<p>Delivering savings and improvement</p> <p>Latest estimates are that the council will require to make budget savings of between £42.2 million and £72.9 million by 2012/13. This equates to between 8% and 14% of the net revenue budget for the current year.</p> <p>There is still significant scope for the council to generate savings through improved procurement practices. The 2010/11 budget includes procurement savings of £2.8 million compared to the £1.4 million savings achieved in 2009/10.</p> <p><i>Risks: planned projects do not deliver the expected improvements or savings. The council is unable to meet its expenditure commitments from available income. Available funding is not directed effectively to priorities or used to provide best value.</i></p>	<p>Aberdeenshire Council has prepared an estimate of the likely scale of savings required to be achieved over the period 2011-2013. The savings range of between £42 and £73 million or 8%-14% covers two financial years and are estimates at present. They will not be finalised until the Scottish Government issue the Grant Settlement towards the end of this year. The council has undertaken a Policy Led Budgeting approach to tackle this position where the council's Strategic Priorities are considered and underpinned by financial resources. This technique builds on the approach adopted in previous years and aligns the financial resources of the council with the strategic and service priorities of the council.</p>	<p>Head of Finance</p>	<p>1 April 2011</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	75 & 76	<p>Councillor training</p> <p>In the year to 31 March 2010, only 24 (35%) of councillors could demonstrate that they had met the CPD requirement set out in 'A Guide to the Role and Duties of an Aberdeenshire Councillor'. In addition, only 39 (57%) have completed and returned their training needs assessment, and only 39 (57%) councillors have a personal development plan in place.</p> <p><i>Risk: without appropriate training and development, councillors may not fully understand their responsibilities, and will be unable to fulfil their complex roles.</i></p>	<p>A range of support service will continue to be available to enable councillors to develop their Personal Development Plans and record their CPD.</p> <p>A rolling programme of CPD training sessions linked to the Corporate Improvement plan will be offered to Councillors. In addition, councillors will be consulted about common training needs and relevant programmes developed.</p> <p>Discussions will be held with councillors to agree the arrangements for CPD activities and how they wish to be supported to complete their Personal Development Plans and CPD records.</p>	Head of HR & OD	<p>31 October 2010</p> <p>30 April 2011</p> <p>31 January 2011</p>
6.	101	<p>Corporate Improvement Plan / Aberdeenshire Performs</p> <p>Work is ongoing to implement the projects contained within the Corporate Improvement plan and Aberdeenshire Performs framework linking corporate, service and local priorities and fully incorporating customer feedback and service performance management.</p> <p><i>Risk: until Aberdeenshire Performs is fully implemented, there is a risk that the council will be unable to evidence delivery its priorities for improving public services for the people of Aberdeenshire.</i></p>	<p>Aberdeenshire Performs reporting framework incorporating the Community Plan, Single Outcome Agreement, Strategic Priorities, Service Plans and Public Performance Reporting is being trialled during the 2010/11 reporting year.</p> <p>It will be fully implemented in the 2011/12 reporting cycle.</p>	Assistant Chief Executive	<p>October 2010 to 31 March 2011</p> <p>30 April 2011</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7.	103, 105 & 109	<p>Performance management</p> <p>The council introduced a new performance management framework in September 2010 in order to improve the quality of performance information reported. It is too early to tell how effective this framework will be in producing comprehensive quality information.</p> <p>Reporting to councillors of performance against the council's strategic priorities in 2009/10 has been delayed due to the introduction of Aberdeenshire Performs, the associated new style of service plans and the decision to align the monitoring with this reporting framework.</p> <p>In addition to the 25 specified SPIs for 2009/10 the council is also required to publish local indicators which demonstrate the council is securing best value. Forty-nine local indicators have been selected but few include cost information crucial to assessing whether or not the council is securing best value in the delivery of its services.</p> <p><i>Risks: the council is unable to demonstrate progress in delivering all of the outcomes contained in its single outcome agreement. Councillors are unaware of how well the council performed against each of the eighty-four actions that underpin its strategic priorities in 2009/10. The council cannot demonstrate best value in the delivery of its services.</i></p>	<p>Aberdeenshire Performs reporting framework will be trialled with the Policy and Area Committees.</p> <p>The finalised reporting framework will be in place by April 2011</p> <p>Strategic Priorities monitoring 2009/10 will be reported to Policy & Resources Committee in November 2010.</p> <p>Review of local indicators will be undertaken.</p>	Assistant Chief Executive	<p>October 2010 to 31 March 2011</p> <p>30 November 2010</p> <p>30 November 2010</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8	116 & 118	<p>Risk management</p> <p>More work is required to develop operational risk registers in all service departments and to provide appropriate training for staff who will be involved in their development.</p> <p>Although a high level community planning risk register is in place, it does not cover the operational risks associated with delivering services through partnership working. Risk registers have yet to be developed for the council's other significant partnerships</p> <p><i>Risk: the council may not have identified and managed all of its operational risks, including those associated with partnership working.</i></p>	<p>Operational Risk Registers for Finance and Housing & Social Work to be approved.</p> <p>Operational risks for other Services documented.</p> <p>Operational Risks for other Services approved.</p> <p>Partnership Risk Register strategy completed.</p> <p>Partnership Risk Register strategy approved by CMT.</p> <p>Partnership Risk Register developed. Timescales of developing the Partnership Risk Registers will be dependent on CMT agreeing the proposed strategy.</p>	Risk Manager	<p>31 March 2011</p> <p>31 December 2011</p> <p>31 March 2012</p> <p>31 December 2010</p> <p>30 January 2011</p> <p>TBC</p>