



HENDERSON LOGGIE
Chartered Accountants

Aberdeen City Council

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

2010/11

External Audit Report No: 2011-07

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Restriction on Use

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's *Code of Audit Practice* for the audit of Aberdeen City Council's financial statements. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- this report has been prepared for the sole use of Aberdeen City Council and their Audit and Risk Committee and will be shared with the Accounts Commission and Audit Scotland
- no responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes



1. Executive summary

Introduction

1. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of Aberdeen City Council (the Council) for the year ended 31 March 2011.

Financial statements

2. Our opinion on the financial statements is unqualified. The financial statements:
 - give a true and fair view, in accordance with applicable law and the 2010/11 Code, of the affairs of the Council as at 31 March 2011 and of the income and expenditure of the Council for the year then ended
 - have been properly prepared in accordance with International Financial Reporting standards (IFRSs) as adopted by the European Union as interpreted and adapted by the Code of Practice on Local Authority Accounting 2010/11 (2010/11 Code); and
 - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.
3. We were not obliged to make any adverse comment on the Council and its group's Annual Governance Statement. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.
4. The Council submitted its draft Whole of Government (WGA) return, based on the draft accounts, to the Scottish Government and to us by the due date, 31 July 2011. The audit certification deadline for submission of the final WGA return to the Scottish Government of 30 September was also achieved.
5. There were delays in completing the bank reconciliations throughout the year. While all were fully reconciled at 31 March 2011, there were issues identified with some of the reconciling items and delays in banking within a particular service that are currently being investigated by Internal Audit.

Use of resources

6. The Council's General Fund balance at 31 March 2011 was £35.466 million, £6.121 million more than the equivalent figure at 31 March 2010. The Council reported a surplus for the year of £7.850 million compared with a budgeted surplus of £2.353 million, i.e. an under-spend against budget of £5.497 million. A number of factors contribute to the movement from budget in the year and the principal reasons are summarised in the Explanatory Foreword on page 6 of the financial statements.
7. The Housing Revenue Account (HRA) balance at 31 March 2011 was £6.877 million, £1.775 million less than that at 31 March 2010. The HRA budget for financial year 2010/11 was to achieve breakeven.
8. From the above balances at 31 March 2011, £24.177 million and £2.363 million have been earmarked from the General Fund and HRA respectively to provide financing for future expenditure plans. Further details are provided at Note 6 of the financial statements.
9. The Group Balance Sheet shows a net assets position of £808.880 million at 31 March 2011. All group bodies' accounts have been 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.



1. Executive summary

10. The Council's pension liabilities at 31 March 2011, estimated by the Actuary, exceeded its share of pension scheme assets by £253.661 million (2009/10 - £299.732 million). The positive movement of £46.071 million arises from using CPI instead of RPI as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits, as announced by the UK government in July 2010.
11. As reported in our previous Reports to Members, the Council has faced significant financial pressures. In setting its budget for 2011/12, the Council approved a range of savings and cost reductions of almost £26 million in order to achieve a balanced budget.
12. Recent reporting to the Finance and Resources Committee has indicated that the Council is currently projecting an overspend of £2 million against a revised budget of £443.834 million. However, the Corporate Management Team believes that a balanced budget position can be achieved for this financial year, despite the challenges that this presents.
13. In setting its 2011/12 Budget, the Council undertook a priority based budgeting approach to developing a fully costed 5-year Business Plan for 2011/12 to 2015/16. This allowed £90 million of savings to be identified, out of the expected £120 million that is projected to be needed over the next five years.

Governance and accountability

14. The Local Code of Corporate Governance was revised during 2010/11 to incorporate the six principles recommended in the CIPFA/ SOLACE Framework.
15. The Council has undertaken a self-evaluation of its Local Code and determined that there is a strong compliance with the Code and that governance processes, procedures, performance reporting and engagement is well managed by the organisation. There are areas that can be developed and the Council is aiming to address identified weaknesses in the development of capacity and capability of members and officers, as well as ensuring that data that is available to the public is as up to date as practical.
16. During 2010/11 the Council's Internal Audit was transferred to an external provider.
17. Work to investigate the data matches uploaded to the NFI secure website in January 2011 is on-going. By 31 October 2011 three frauds with a total value of £9,736 (pounds) had been identified. Other errors have been identified resulting in overpayments of £28,484 (pounds). The Council is seeking repayment of the full £38,220.

Performance management and improvement

18. Work has continued throughout 2010/11 to further enhance the Council's performance management arrangements. The Council utilises the Covalent performance management system and all business plan scorecard actions and indicators, both at corporate and service level, are now managed through Covalent.
19. A thorough review was undertaken in 2010 of the Community Planning Services in Aberdeen City, and an Implementation Plan was developed in January 2011. As a result of the review, from June 2011, a new Community Planning Partnership was established comprising, Community Planning Aberdeen and a new Board, Community Planning Aberdeen Board. TACA has therefore ceased.
20. A report was presented to the Corporate Policy and Performance Committee in September 2011 reporting the outturn performance and analysis for the measures included within the SOA.



1. Executive summary

21. The Chief Executive presented a report to the Full Council in June 2011 updating members on the Council's progress since the publication of the Accounts Commission's follow-up report.
22. The Shared Risk Assessment: Assurance and Improvement Plan 2011-14 was reported to the Audit and Risk Committee in September 2011. Overall, the AIP acknowledges a positive direction of travel, however, has noted there are two areas of scrutiny risk or uncertainty.
23. Audit Scotland published a number of reports on national studies over the past year. A summary of these reports, together with the Council actions to date, is included at Appendix I.

Outlook

24. Along with all other public bodies in Scotland, Aberdeen City Council is facing up to the prospect of having to make significant budget savings. At the same time as the Council aims to support the local economy and provide best value services, it is likely to face a severe reduction in resources. The Council needs to continually update its five year Business Plan to take account of the Scottish Government's key priorities and maximise available funding to maintain delivery of key services for the area.
25. The newly established Community Planning Aberdeen and the work carried out as part of the development of the five year Business Plan should help the Council and its planning partners in achieving a greater focus on "place" to drive partnership, collaboration and local delivery as envisaged in "Renewing Scotland: The Government's Programme for Scotland 2011-2012 and the Government Economic Strategy".

Acknowledgements

26. This is the final year of our appointment as external auditors. Our audit has brought us in contact with a wide range of Council officers and members. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by officers and members in the discharge of our duties.
27. We will liaise with the Council's incoming auditors to achieve a coordinated handover of the audit and to ensure that the new auditors are fully briefed on all relevant matters.



2. Introduction

Introduction

28. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of the Council for the year ended 31 March 2011.
29. The framework under which we operate, under appointment by Audit Scotland, and our audit approach are as outlined in our **Risk Assessment, Annual Plan and Fee Proposal for 2010/11** (Annual Plan), Report 2011-01 issued on 31 January 2011. The respective responsibilities of members, officers and auditors are set out in an Appendix to our **Report to those charged with Governance on the audit of Aberdeen City Council 2010/11** (ISA 260 Report), Report 2011-06 issued on 30 September 2011.
30. 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 (the Code)
 - 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 for securing Best Value; manage its performance in relation to economy, efficiency and effectiveness in the use of resources
 - review and report on the Council's arrangements for preparing and publishing statutory performance information
31. Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

Audit activity and reporting

32. As part of our overall planning approach to the Council's annual audit we carried out a review of the key risks, national and local, facing the Council and reported how we would continue to monitor them during the year through attendance and review of Council and Community Partnership meetings and minutes and discussions with officers. The main risks were reported in our Annual Plan and where appropriate we have included an update on these risks in this report. 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.
33. In accordance with our Annual Plan we reviewed the Council's key internal controls and have raised some issues during the course of the audit including matters highlighted in our **Financial Statements Audit Plan** (FSAP), Report 2010-03 issued on 13 May 2011 and our **ISA 260 Report**. We also plan to issue a separate detailed Management Letter covering specific issues relating to the financial statements.
34. We take this opportunity to remind you that 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.



3. Financial statements

Audit opinion

35. We are pleased to report that the target date of 30 September 2011 for the audit completion and certification of the annual accounts was met. Our opinion on the financial statements of the Council for the year ended 31 March 2011 is unqualified.
36. In accordance with International Standard on Auditing (ISA) 260 we issued our ISA 260 Report, which was discussed with the Corporate Accounting Manager and the Convener and Vice Convener of the Audit and Risk Committee on 22 September 2011. This report included our proposed audit certificate and detailed the agreed adjustments to the draft accounts arising from our audit, together with comments on the Council's accounting practices and accounting and internal controls. The report also summarises our findings in relation to the material risks and exposures previously identified in our Annual Plan and our FSAP.
37. We set out below a summary of the audit certification issues:
- the financial statements give a true and fair view, in accordance with applicable law and the 2010/11 Code of Practice on Local Authority Accounting of the state of the affairs of the group and of the Council as at 31 March 2011 and of its income and expenditure of the group and the Council for the year then ended
 - the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code
 - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003
 - the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
 - the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements
38. We are also required to report if, in our opinion:
- adequate accounting records have not been kept
 - the financial statements are not in agreement with the accounting records
 - we have not received all the information and explanation we require for our audit
 - the Annual Governance Statement complies with Delivering Good Governance in Local Government; or
 - there has been a failure to achieve a prescribed financial objective

We have nothing to report on these matters.

39. A number of issues have been raised in our ISA 260 Report which requires to be addressed by management. A debrief meeting will be held with the finance team in November 2011 to discuss these issues in detail, which will then allow an Action Plan to be developed to ensure that the issues are addressed prior to the preparation of the 2011/12 financial statements. The agreed Action Plan (which will form part of our Year-end Management Letter) will be presented to the Audit and Risk Committee in due course.



3. Financial statements

40. We have previously commented on the adequacy of the resources within the finance section to be able to maintain a robust financial system to produce accounts and other information which is both timely and accurate. While an improvement was noted in the quality of the draft accounts received for audit, there remain a number of areas where the adequacy of resources should be considered. We recommended that a review should be carried out of the current level of resources and skills mix, particularly within the corporate finance team to ensure that they are adequate for the Council's needs. This will be discussed further at our debrief meeting.

Material risks and exposures

41. Our FSAP identified a number of material risks and exposures faced by the Council that we assessed might impact on the Council's financial statements. Our ISA 260 Report provided a summary of the issues along with information on how they had been resolved. The following paragraphs provide a further update.

Whole of Government Accounts (WGA)

42. The main legislative authority for WGA is contained in the Government Resources and Accounts Act 2000. Under the Act, HM Treasury is responsible for preparing WGA statements at a UK level. Although the Act is not applicable in Scotland, the Scottish Government has agreed to provide the Treasury with equivalent information. Scottish local authorities are therefore required to submit their WGA information in an Excel workbook to the Scottish Government.
43. The UK Government's aim, in respect of WGA, is to develop a fully audited set of accounts covering virtually all of the UK public sector. WGA treats Government as if it were a single, consolidated entity by eliminating all significant transactions and amounts owed between public sector bodies and harmonising accounting policies. WGA is intended to present a true and fair view of Government activities.
44. The deadline of 29 July 2011 for the submission of the consolidation packs to auditors was met, as was the audit deadline of 30 September 2011.

International Financial Reporting Standards (IFRS)

45. From 2010/11, local authority accounts must be prepared in accordance with International Financial Reporting Standards (IFRS). Authorities needed to restate the 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based Balance Sheet. We reviewed the opening balance sheet and 2009/10 restatement templates and reported our findings in our **Opening IFRS Balance Sheet Review**, Report 2011-02, issued on 11 May 2011.
46. There were a number of actions arising from our review and additional resources were brought in to allow these to be completed for inclusion within the draft accounts. From our audit of the draft accounts, we are satisfied the 2010/11 financial statements have been prepared in accordance with IFRS and that the comparative information has been accurately restated.

Review of significant trading operations (STOs)

47. In accordance with the requirements of the Local Government in Scotland Act 2003 (the Act) the Council assessed its trading activities and determined that it had six Statutory Trading Operations (STOs). A review was undertaken in the year and concluded that the catering and cleaning services, which were previously classed as non-significant, were no longer classed as trading operations.

3. Financial statements

Bank Reconciliations

48. As noted in the Annual Governance Statement, our interim testing identified that further work was required in relation to the timely and effective reconciliation of the Council bank accounts. All bank accounts were reconciled at 31 March 2011 for inclusion within the draft financial statements. However, audit work at the year-end identified that there were issues with some of the reconciling items. This resulted in an unadjusted trivial error arising from income in the bank statement not posted to the ledger, and delays in banking which are currently being investigated by Internal Audit (see comments at paragraph 119).

Group accounts

49. The Code requires authorities to prepare a full set of group accounts in addition to its single- entity accounts where there is an interest in other entities (excluding the Pension Fund). The Council has prepared group accounts in accordance with these requirements and the notes to the Group Accounts details its interest in other entities and the basis of consolidating the results within the Council's group accounts.

Trust Funds

50. Discussions have been on-going for some time between the Office of the Scottish Charity Regulator (OSCR) and LASAAC regarding the staged application of the Charities (Scotland) Regulations 2006. OSCR wrote to all Councils earlier in 2011 regarding their reporting requirements for local authority charities from 2010/11. The letter stated that an independent examination report would continue to be accepted until 2012/13, and that an audit report would not be required until 2013/14. OCSR has subsequently noted that where a charity's gross income exceeds £500,000 or gross assets exceed £2.8 million, an audit report is required for 2010/11.
51. Although the trust funds administered by the Council fall below this threshold, it is still recommended that local authorities continue to make disclosures in respect of trust funds that are consistent with previous years. The disclosure requirement in last year's SORP, in respect of trust funds, is not included in the Code. However, failure by local authorities to disclose details of the nature and amount of trust funds in their accounts would necessitate the preparation and audit of separate accounts for charities in order to satisfy the requirements of section 106 of the Local Government (Scotland) Act 1973. In 2010/11 the Council has made the appropriate disclosure consistent with prior years.
52. During 2011 OSCR wrote to LASAAC providing feedback on the 2009/10 submissions to OSCR for all Local Authorities. The feedback assessed submissions, which look at more than just the accounts information, against four categories; fully compliant (no councils achieved this grade), above average (10 councils), average (12 councils) and below average (8 councils). As in 2008/09, the Aberdeen City submissions fell within the "below average" band. The letter identifies that OSCR expect clear progress to be demonstrated by authorities. The 2010/11 information is due for submission by 31 December 2011. (Refer to R3 from 2009/10 Action Plan in Section 7)

Pension Fund

53. Local authorities responsible for administering a pension fund forming part of the local government pension scheme are required by a recent amendment to the *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* to publish a pension fund annual report from 2010/11.

3. Financial statements

54. Until 2009/10, pension fund financial statements were included in the administering authorities' accounts and were therefore covered by the audit opinion on those accounts. From 2010/11, pension fund financial statements are no longer included in the authorities' accounts, and we are required to give a separate audit opinion on the financial statements in the pension fund annual report by 30 November 2011. We will therefore submit a separate Annual Report by 30 November 2011 covering our audit of the pension funds administered by Aberdeen City Council.

Legality

55. Throughout our planned audit work we consider the legality of the Council's financial transactions. In addition 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 regulation. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

56. A number of changes in financial reporting are expected to apply from 2011/12 and beyond
- FRS 30, Heritage Assets has been issued that was not been adopted by the Council in 2010/11, but will be required in 2011/12.
 - Charity accounts. Pending conclusion of discussions with OSCR, the Council will need to continue to make a choice between making the appropriate trust fund disclosures in the 2011/12 accounts and making arrangements for the separate audit of these funds.
 - For the Whole of Government Accounts return, authorities are required to provide highways infrastructure data to capture progress being made on revaluing those assets on a depreciated replacement cost basis. While this was not subject to audit in 2010/11, it will require to be audited in 2011/12.

4. Use of resources

Financial Position

57. As reported in the Comprehensive Income and Expenditure Statement for 2010/11 the Council reported a deficit on the provision of services of £56.438 million (2009/10: £25.680 million) and a total comprehensive income and expenditure surplus of £139.366 million (2009/10: deficit of £79.770 million). After making the necessary adjustments through the Movement in Reserves Statement (MIRS) for items required by statute to be charged to the General Fund, the Council has reported a General Fund increase of £6.121 million for the year to £35.466 million at 31 March 2011.
58. For statutory accounting purposes the Housing Revenue Account (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 separately. The HRA Income and Expenditure Statement reported a deficit for the year of £108.003 million (2009/10: surplus of £7.174 million). The final outturn for 2010/11, after the necessary adjustments to the HRA movements was a decrease of £1.775 million on the HRA balance for the year to £6.877 million at 31 March 2011.
59. From the above balances at 31 March 2011, £24.177 million and £2.363 million have been earmarked from the General Fund and HRA respectively to provide financing for future expenditure plans. Further details are provided at Note 6 of the financial statements.

Financial performance

60. Financial performance for 2010/11 is measured against the financial budget set by the Council in February 2010 (and subsequent approved amendments). In this regard the Council reported a surplus for the year of £7.850 million compared with a budgeted surplus of £2.353 million, i.e. an under-spend against budget of £5.497 million. This differs from the £6.121 million increase in the General Fund reported above due to the following:
- Expenditure amounting to £2.420 million was incurred that was either not budgeted in 2010/11 in connection with a decision to make savings in 2011/12 or was in relation to workforce reduction costs that had been earmarked at the start of the year
 - Reclassification of grant income as a result of IFRS resulted in £0.690 million being recognised in the year, increasing the General Fund balance, the full value of which is earmarked for use on specific projects.
61. When the budget for 2010/11 was approved, it was anticipated that there would be a £3.571 million contribution to reserves and balances during the year. The base budget spend of £445.706 million, set on 11 February 2010, was increased as a result of adjustments to Revenue Support Grant, commitments brought forward from 2009/10 and other expenditure approved by the Council during the year. As a result of these adjustments the base budget increased to £448.216 million, with an anticipated contribution to reserves and balances of £2.353 million.
62. A number of factors contribute to the movement from budget in the year and the principal reasons are summarised in the Explanatory Foreword on page 6 of the financial statements. The main savings have arisen from the management of staff and vacancies across all services produced an overall saving of £7.2 million.

STOs

63. All six STOs have met their three-year break-even target and made a surplus in 2010/11. The results of the STOs are disclosed in the Council's Comprehensive Income and Expenditure Statement and associated notes.

4. Use of resources

Group balances and going concern

64. The Group's Comprehensive Income and Expenditure Statement for 2010/11 reported a group deficit of £43.340 million (2009/10: deficit of £44.048 million) and a total comprehensive income and expenditure surplus of £162.843 million (2009/10: deficit of £203.264 million).
65. The Group Balance Sheet reports a net assets position of £808.880 million (2009/10: £646.037 million) compared with the Council's single entity Balance Sheet net asset position of £1,109.471 million (2009/10: £970.105 million). The material difference of £300.591 million (2009/10: £324,068 million), is represented mainly by the Share of the Net Liabilities of Associates including the Council's share of the pension liabilities of the Joint Boards. These have been accounted for under IAS 19 'Employee Benefits' in accordance with the Code.
66. All group bodies' accounts have been 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.

Capital expenditure

67. Gross capital expenditure on the Council's long term assets for 2010/11 amounted to £138.818 million of which £42.847 million was spent on Council Dwellings and £27.927 million covering the 3Rs project costs. Further details of the split of capital expenditure, together with an analysis of how the expenditure was financed, are included in Notes 28 to 31 within the financial statements.
68. The General Fund capital budget (excluding the 3Rs project costs) set by Council was £96.7 million but only funded to £69.1 million. A further £11.7 million was subsequently approved by Committee or rolled forward from 2009/10, increasing the budget to £108.4 million. Slippage of £39.3 million was therefore required. The Corporate Asset Group worked with Services to ascertain a minimum budget requirement, which was forecast at £63.6 million, thus bringing the programme to within the capital funding constraints. Actual expenditure was in line with the forecast and funding was secured from a variety of sources, principally through borrowing from the Council's Loans Fund.
69. The Housing capital budget set by Council was £63 million, with funding in place for spend of £54.8 million. The level of slippage required was similar to previous years and allows for contract variations, projects starting later than anticipated and projects being amended. The actual expenditure was £53 million and was principally funded by a revenue contribution from the HRA of £22 million and borrowing from the Council's Loans Fund of £24.4 million.
70. The 2011/12 General Fund capital budget is currently £41.474 million after taking into account additional capital funding. Recent reporting to the Finance and Resources Committee noted that there are currently no overspend predictions in the overall capital programme. The Corporate Asset Group has begun consultation with Services on the development of the capital plan for 2012/13. As part of this on-going work, the Group will consider how a number of significant projects can be delivered at a time of financial constraint.

4. Use of resources

Efficient Government

71. All public sector bodies in Scotland are involved with the Scottish Government's Efficient Government initiative. The initiative is designed to achieve cash and time releasing savings over a three-year period through elimination of waste, bureaucracy and duplication.
72. For 2008/09 to 2010/11, no specific targets have been set for individual authorities, but the Scottish Government identified a target for efficiency savings of 2% across the public sector. The Council recognises that it must strive for and achieve continuous improvement to its services, measurable year on year. To be meaningful, these improvements need to generate clear savings or improvements to efficiency and productivity each year. Table 1 below sets out the efficiency gains made in 2010/11, shows total cash releasing savings of £18.223 million, which equates to 4.07%.
73. The efficiency gains have been achieved across all of the Council's activities: from delivering a better service to citizens with less resources (a cash releasing efficiency) or delivering an improved level of service without increasing the cost of providing these services (a time releasing efficiency). A culture of accountability, performance management and service improvement is being embedded in the Council and a range of approaches are used to deliver efficiency gains. These include the adoption of new technology, developing staff and the organisation's capabilities, closer working together with partners and rigorously challenging how it works.

Table 1- 2010/11 Efficiency Gains

Theme	Cash Releasing £'000	Time Releasing £'000	Recurring £'000
Procurement	1,844	-	1,824
Workforce Planning	13,017	-	9,594
Asset Management	788	-	765
Shared Services	300	-	300
Streamlining Bureaucracy	979	-	967
Other	1,295	-	1,277
Total	18,223	-	14,727

74. The Council's 5 year business plan and the priority based budgeting approach to the 2011/12 budget and beyond, identified a range of efficiency measures, including:
- In Social Care and Wellbeing, the Council expects to achieve savings through a combination of more effective assessment and management of client needs such that they can be met by a lower cost of service, and options that seek to reduce the unit cost of services through measures such as improved commissioning arrangements.
 - Within Education, Culture and Sport, there are proposals for a Secondary City Campus, bringing together educational establishments in order to provide a City of learning approach to secondary school aged children.
 - Efficiencies through improved commissioning arrangements are a major theme throughout the Council for 2011/12 as are continued savings on contracts through the procurement process.
 - The Council has spent three years transforming Marischal College which has allowed for phased relocation of 1,323 staff during 2011/12. It has also allowed for the provision of a single customer contact centre, enabling the shared use of resources across services.

4. Use of resources

Reserves and balances

75. 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 2011 the Usable Reserves held by the Council totalled £56.211 million (at 31 March 2010 - £44.858 million). Table 2 details the balances and movements on these reserves.

Table 2 – Usable Reserves and Commitments

	2011	2010	Movement
	£m	£m	£m
Usable Reserves			
General Fund	35.466	29.345	6.121
Housing Revenue Account	<u>6.877</u>	<u>8.652</u>	<u>(1.775)</u>
General Fund balance	42.343	37.997	4.346
Capital Fund	11.927	5.121	6.806
Insurance Fund	1.429	1.120	0.309
City Improvement Fund	0.255	0.338	(0.083)
Lord Byron Fund	<u>0.005</u>	<u>0.005</u>	<u>0.00</u>
Statutory and Other Reserves	13.616	6.584	7.032
Capital Grants Unapplied Account	<u>0.252</u>	<u>0.277</u>	<u>(0.025)</u>
At 31 March	56.211	44.858	11.353
	=====	=====	=====
Committed within total General Fund Balance			
General Fund	24.177	18.417	5.760
HRA	<u>2.363</u>	<u>3.126</u>	<u>(0.763)</u>
	<u>26.540</u>	<u>21.543</u>	<u>4.997</u>
Uncommitted			
General	11.289	10.928	0.361
HRA	<u>4.514</u>	<u>5.526</u>	<u>(1.012)</u>
	<u>15.803</u>	<u>16.454</u>	<u>(0.651)</u>
Total	42.343	37.997	4.346
	=====	=====	=====

76. Further details of the commitments are provided in Note 6 to the financial statements.
77. The uncommitted General Fund reserve balance excluding HRA, of £11.289 million represents 2.5% of the net revenue budget for 2011/12 and is within the Council's approved limits. This maintains uncommitted reserves at a similar level to those held at the end of 2009/10.

Treasury management

78. The Local Government Investments (Scotland) Regulations 2010 were approved by the Scottish Parliament on 10 March 2010 and came into force on 1 April 2010. The Regulations permit local authorities and boards to make investments subject to them obtaining the consent of Scottish Ministers. Finance Circular 5/2010, issued by the Scottish Government on 1 April 2010, provides the general consent of Scottish Ministers and sets out the requirements attached to the consent.
79. The consent requires authorities to invest in a way that minimises the risk to the capital sum and optimises the return on the investment consistent with those risks.
80. Authorities are required to prepare an Annual Investment Strategy (the Strategy) before the start of the financial year and an Annual Investment Report (the Report) within six months of the financial year end. The consent specifies minimum requirements for these two documents. There should also be a mid-year review.

4. Use of resources

81. The Council's Investment Strategy for 2010/11 to 2012/13 was approved in June 2010. A mid-year review was reported to both the Finance and Resources Committee and Full Council in December 2010 and the year-end review was reported in June 2011.

Pensions

82. Accounting for the costs of pensions presents a difficult challenge for councils. The amounts involved are large, the timescales long, and the estimation process is complex involving many areas of uncertainty that are the subject of assumptions. IAS 19 (Employee 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.
83. The Council participates in two pension schemes on behalf of its employees: the Scottish Teachers' Superannuation Scheme (Teachers) administered by the Scottish Government and the Local Government Pension Scheme (LGPS) for which Aberdeen City is the administering authority. Both schemes provide members with defined benefits related to pay and service.

IAS 19 Pension costs

84. The Council disclosed the IAS 19 requirements for the LGPS. The Teachers' scheme is unfunded and the Scottish Government use a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. Therefore, for the purposes of the financial statements, it is accounted for on the same basis as a defined contribution scheme.
85. The Council's pension liabilities at 31 March 2011, estimated by the Actuary, exceeded its share of pension scheme assets by £253.661 million (2009/10: £299.732 million). The net pension liability in the Balance Sheet has decreased by £46.071 million (39%) during 2010/11. One of the main components of the decrease is the move to using CPI instead of RPI as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits, as announced by the UK government in July 2010.

Financial planning

86. In 2011/12, the Council again froze Council Tax in accordance with the concordat with the Scottish Government. These arrangements have been confirmed as continuing for the next three years.
87. The key risk for the Council for future years will be to manage within the available budget. A base budget of £456 million for 2011/12 was approved on 10 February 2011, which incorporated budget savings of almost £26 million.
88. In setting its 2011/12 Budget, the Council undertook a priority based budgeting approach to developing a fully costed 5-year Business Plan for 2011/12 to 2015/16. This allowed £90 million of savings to be identified, out of the expected £120 million that is projected to be needed over the next five years. Preparation of the Business Plan started in 2010 and included a systematic appraisal and evaluation of options against the Council's key strategic priorities. The proposals were also founded on extensive engagement with the community and other key stakeholders. The Business Plan was approved by Members in August 2011 and reports will be presented to the Corporate Policy and Performance Committee on a six-monthly basis on the progress with the delivery of the plan. The Council's priority based budgeting approach recently featured as an example of good practice in Audit Scotland's "*Scotland's public finances: Addressing the challenges*", published in August 2011, which highlighted that few other public bodies have so far undertaken a structured approach to budget setting in this way.

4. Use of resources

89. Recent reporting to the Finance and Resources Committee has indicated that the Council is currently projecting an overspend of £2 million against a revised budget of £443.834 million. However, the Corporate Management Team believes that a balanced budget position can be achieved for this financial year, despite the challenges that this presents.
90. A further report was also presented to the Finance and Resources Committee on 29 September 2011, which reported that significant progress has been made in delivering the approved Priority Based Budgeting options for 2011/12 and work is now underway to update the five-year business plan and specifically the 2012/13 budget.

People management

91. The Council's Corporate Workforce Strategy, Peoplefirst, informed the development of the five year Business Plan 2011/12 to 2015/16, which in turn informed the Service Plans. Employees were consulted in the development of this plan.
92. The Business Plan highlights that successful delivery of the service options outlined in the plan is dependent on the quality and commitment of the Council's employees. The challenge over the next five years will be to continue to deliver high quality services with a smaller core workforce, a restricted budget and increasing customer expectations. The plan notes that this will depend on how well the Council engages with its employees and will require a greater emphasis on and understanding of employee engagement.
93. The level of current employee satisfaction was measured through the 2010 Employee Opinion Survey. An action plan has been put in place to build on the positive outcomes of the survey and at the same time bring about improvements in areas such as performance and appraisal, communication and job satisfaction.
94. An Employee Code of Conduct was implemented in February 2011. The Code was developed building on the "Seven Principles of Public Life" as defined by the Nolan Committee in 1995 and published by local government in 1997.

Asset management

95. An annual update to the Council's Property Asset Management Plan (PAMP) was approved by the Finance and Resources Committee in September 2011. This identified key areas of progress since 2010 along with highlighted areas for development. The objectives and priorities remain as stated in the original 2009 PAMP with some amendments, in particular to include the need for all property reviews to consider the implications of the Priority Based Budget exercise.
96. During 2010/11, asset management has become more embedded within the Council's corporate structure with the recognition of the importance of the Corporate Asset Group, and the importance of this Group in the management of the Capital Programme. Furthermore, the Group has been instrumental in supporting all Services to develop Service Asset Management Plans, which allows Services to understand how properties assist in the delivery of their services. Service Plans have been approved by the relevant Service Committee and are being used in asset management decision making processes.
97. The most significant challenge faced by the Council is financial, with a reduction in the General Services Capital Programme and the continued revenue pressures making effective asset management challenging.

4. Use of resources

98. Key achievements in 2010/11 include the completion of the 3Rs project and the opening of Marischal College. With the relocation of staff to Marischal College, the Finance and Resources committee approved a number of recommendations to review all corporate office accommodation.
99. In October 2011 the Council decided to demolish St Nicholas House prior to marketing the site. Although this option may not have proved to be the best option in cash terms other issues such as the amenity of the area were taken account of in arriving at what Members considered to be the Best Value option for the site.
100. The Council is continuing to implement a Corporate Asset Management System (CAMS) to replace stand alone systems such as Bridgeman for Bridges and Structures and HiLight for Street lighting. A key priority for 2011/12 is to expand accessibility of CAMS to all Services and specific Elected Members.

Procurement

101. A follow-up review was carried out to assess how well the Council is doing to ensure that it can demonstrate value for money when purchasing goods and services. This was in response to Audit Scotland's national report *Improving public sector purchasing*, which was published in July 2009.
102. Our findings were reported in **Improving Public Sector Purchasing Follow-up Report**, Report 2011-04, published on 12 August 2011. Our overall conclusion noted that the Council can demonstrate:
- commitment to achieving improvements in purchasing practice – the score of 51% in the 2010 Procurement Capability Assessment (PCA) places the Council in the top quartile of Scottish local authorities
 - a clear system of delegation and authority for purchasing
 - a high-quality purchasing strategy.
103. The Council is making good progress in implementing its procurement programme and the actions arising from the PCA. However, improvements in reporting to senior management and elected members would enhance existing governance arrangements.

Outlook

104. Along with all other public bodies in Scotland, Aberdeen City Council is facing up to the prospect of having to make significant budget savings. At the same time as the Council aims to support the local economy and provide best value services, it is likely to face a severe reduction in resources. The Council needs to continually update its five year Business Plan to take account of the Scottish Government's key priorities and maximise available funding to maintain delivery of key services for the area.
105. The key priorities for the Council for 2011/12 and beyond are:
- Financial Planning – achieving a balanced budget position for 2011/12 and meeting the budget savings target
 - People Management - to continue to engage with employees to help deliver high quality services with a smaller core workforce, a restricted budget and increasing customer expectations
 - Asset Management – effectively manage the capital programme within continued financial restraints and expanding accessibility of CAMS



4. Use of resources

106. All but one of the STOs are projecting to achieve a position of at least break-even for the year 2011/12, before IAS19 pension adjustments which are unknown at this time. The only exception is Ground Services, for which the current projected outturn is a deficit of £385,000, due to the provision for the payment of a rebate to the client services. This needs to be closely monitored to ensure that the statutory breakeven targets are met.
107. As part of the Council's current review of internal recharging, it is proposing that, with the exception of Car Parking and Property Letting, the remaining STOs will be de-classified as Trading Services and as such will be integrated with their corresponding General Fund services.
108. As part of the Council's current review of internal recharging, it is proposing that, with the exception of Car Parking and Property Letting, the remaining STOs will be de-classified as Trading Services and as such will be integrated with their corresponding General Fund services.

5. Governance and accountability

Annual governance statement

109. As reported in our 2009/10 Annual Report, the Council has published a single Annual Governance Statement based on the CIPFA/ SOLACE Framework. The statement adopts the main elements of good practice and clearly describes the key elements of the governance framework in place, including the Local Code of Corporate Governance. The key points are noted below.
110. 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.

Corporate governance and internal control arrangements

111. The Local Code of Corporate Governance was revised during 2010/11 to incorporate the six principles recommended in the CIPFA/ SOLACE Framework. Against each principle is a set of key documents, policies, arrangements and areas of activity within the Council that address the theme, and are summarised in the Annual Governance Statement, on page 15 of the financial statements. The main key documents, policies and arrangements in place to note are:
- Overall policy statement, *Vibrant, Dynamic and Forward Looking*, supported by the Single Outcome Agreement and Five-year Business Plan.
 - Standing Orders, Committee orders of Reference and Scheme of Delegation
 - Councillors Code of Conduct
 - The scrutiny of the Council emanates from the Audit and Risk Committee, which has a convener and vice-convener from the opposition groups to enhance the independence and scrutiny function
 - The Audit and Risk Committee also receives reports on risk management
112. The Council has undertaken a self-evaluation of its Local Code and determined that there is a strong compliance with the Code and that governance processes, procedures, performance reporting and engagement is well managed by the organisation. The Council has a clear approach to the decision-making process and seeks to engage with those in the community and with partners and staff. There are areas that can be developed and the Council is aiming to address identified weaknesses in the development of capacity and capability of members and officers, as well as ensuring that data that is available to the public is as up to date as practical.
113. The Council has identified five actions which need to be addressed, and these are detailed within the Annual Governance Statement on page 20 of the financial statements, along with actions that will be taken going forward.

Reliance on Internal Audit

114. 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 2010/11 we agreed to place reliance on work covering a number of areas.
115. During 2010/11 the Council's Internal Audit was transferred to an external provider, with PwC starting their contract in October 2010. A full year's programme of internal audit was carried out in the six month period to 31 March 2011.

5. Governance and accountability

116. 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.

Prevention and detection of fraud

117. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
118. At a corporate level, the Council has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include, for example, an anti-fraud and corruption strategy, a whistle blowing policy and codes of conduct for elected members. A new code of conduct for employees was also introduced in 2011. While we have made some recommendations in our management letter to improve reporting, overall we concluded that arrangements were generally satisfactory to prevent and detect fraud and other irregularities.
119. We are required to have arrangements in place to be notified of all frauds over £5,000 and to submit reports to Audit Scotland. One fraud report was submitted to Audit Scotland during 2010/11 and we have been advised that Internal Audit is currently investigating a potential fraud which may require to be reported.

National Fraud Initiative

120. During 2010/11 we continued to monitor the Council's participation in the National Fraud Initiative (NFI) 2010/11. 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, including occupational pension fraud and payroll fraud.
121. Work to investigate the data matches uploaded to the NFI secure website in January 2011 is on-going and a number of matches have been investigated and the outcomes recorded on the NFI web application. Responsibility for investigating the remaining open matches is clearly defined and work will continue until all matches are fully investigated and closed off. We will continue to monitor the steps taken by the Council as the 2010/11 NFI exercise develops and will submit a report to Audit Scotland by February 2012 summarising the arrangements in place.
122. By 31 October 2011 three frauds with a total value of £9,736 (pounds) had been identified. Other errors have been identified resulting in overpayments of £28,484 (pounds). The Council is seeking repayment of the full £38,220.

Housing benefit/ Council Tax benefit

123. Audit Scotland undertook its risk assessment in October 2009, and the report conclusions were reported to the Audit and Risk Committee in January 2010. This report found that the benefits service had improved performance year on year with new claims and speed of processing information despite operating with financial constraints and reduced staffing levels. The report identified a small number of improvements that were addressed in an action plan that was sent to Audit Scotland.
124. An *Annual Housing and Council Tax Benefit Report* was presented to the Finance and Resources Committee in September 2011 to update members on the performance during 2010/11 and set out key priorities for 2011/12. Within this report, the Council has highlighted that the issues identified in the risk assessment have been addressed.

5. Governance and accountability

125. We audit the Council's subsidy claim form each year in accordance with guidance and instructions provided by Audit Scotland and the Audit Commission, using the HB count methodology. In the three years to 2009/10 the application of this methodology identified a number of errors that will potentially give rise to subsidy clawback, with the DWP making a final decision and claiming a clawback for 2007/08 and 2008/09. The subsidy work for 2010/11 is currently on-going and an estimate of the potential clawback for this year, together with the outstanding settlements for 2009/10, has been provided for in the Council's accounts.

Outlook

126. The five actions identified as part of the Council's self-evaluation of its Local Code need to be addressed. The Council is aiming to address identified weaknesses in the development of capacity and capability of members and officers, as well as ensuring that data that is available to the public is as up to date as practical.
127. The Council is required to complete the review of open matches and we submit a report to Audit Scotland by February 2012.
128. The Department of Work and Pensions wrote to the Council on 3 November to say that no further work was required on the 2009/10 subsidy claim. The Council has until 18 November to submit any mitigating circumstances/representations, after which the Secretary of State will proceed to make a decision on recovery of overpaid subsidy. The decision will be based on the extrapolated figure of overpaid subsidy of £0.554 million. Work on the audit of the 2010/11 subsidy claim has again identified errors and we are currently finalising the figures. We expect to meet the deadline for submission of 30 November 2011

6. Performance management and improvement

Performance management

129. Work has continued throughout 2010/11 to further enhance the Council's performance management arrangements. The Council utilises the Covalent performance management system and all business plan scorecard actions and indicators, both at corporate and service level, are now managed through Covalent.
130. It was agreed by the Corporate Policy and Performance Committee in September 2010 that the Council would move towards performance reporting by exception. The progress report submitted to the June 2011 meeting of the Corporate Policy and Performance Committee indicates that implementation of reporting has varied across Services and Committees. All Services are currently in the process of adapting their reporting processes to this format. The performance reports for the Corporate Governance Service have followed the exception reporting model for four consecutive quarterly reporting cycles. As well as items reflecting good or under-performance, elected members are provided with a summary of the current position of the full business plan scorecard.
131. The Council has undertaken engagement events in preparation for the completion of the 5 year corporate business plan 2011/12 – 2015/16 '*The Next Five Years*'. These engagement events have covered both internal and external partner and stakeholder groups. The format of the 5 year business plan is based on the Public Service Value Model, which aims to bridge the knowledge gap between what the Council does, as public service provider, and how the Council can measure performance in terms of outcomes. This allows the full range of service provision to be reported in a manner which is more accessible to citizens. It is not intended to replace existing models, such as the balanced scorecard approach, but is intended to complement these existing arrangements.
132. The Council has published an Annual Report for 2010/11. The format of the Annual Report 2010/11 includes an executive summary, a performance profile, details of strategic priorities and a section for each service to highlight priorities and objectives. These sections are illustrated by 'case studies' reflecting specific achievements to date. The report is designed to be easy to read and readily understandable by service users as well as other stakeholders and will set out the outlook for the future. The report is available in hard copy at public buildings as well as on the Council website together with links to Aberdeen Performs, the corporate plan and audited accounts.
133. The Council participates in the Improvement Service / SOLACE Benchmarking club with the other Scottish local authorities. This offers a particularly useful resource for unit cost comparisons. The Council also participates in the four cities benchmarking exercise, which provides a comprehensive range of benchmarking opportunities. Further improvements in benchmarking activity are a key priority as reflected by the inclusion of an action in the Corporate Governance Business Plan and the on-going work to establish a range of sector indicators.
134. There is a Corporate Performance Management Group which is coordinated by the Performance and Risk Team. The aim of the group is to share best practice and to ensure consistency of approach in all performance management arrangements. The group meets at least quarterly. Standing items include benchmarking, exception reporting and self-evaluation.
135. Feedback from engagement activities is collated and used to inform service business planning. The Council participates in the Scottish Public Services Ombudsman (SPSO) working party to establish a common complaints handling procedure. In addition, a feedback system has been trialled in order to effectively manage complaints handling, analysis, reporting and lessons learned.

6. Performance management and improvement

136. The module is a part of the Covalent software package and is integrated with both the performance and risk management streams which are already fully rolled out. If the complaints handling module is adopted, the Council will be in a position to monitor all complaints handling activity and to demonstrate improvements and lessons learned instigated as a result of complaints analysis. In future, it is intended that complaints handling will form a part of the Council's performance reporting arrangements.
137. The Council's online performance portal '*Aberdeen Performs*' contains trend data appended to each metric. The narrative associated with each performance metric includes, wherever possible, an explanation of factors influencing progress with actions as well as comparative information with similar organisations.
138. Arrangements in place are sufficient to meet the Council's statutory duties to collect, record and publish a range of Statutory Performance Indicators. The range of non-specified performance indicators required to meet the requirements of the 2010 SPI Direction was agreed by the Corporate Policy and Performance Committee in April 2010. The Council has robust procedures for collecting and checking both specified and non-specified indicators.
139. The SPI proforma was lodged prior to the 31 August 2011 deadline set by Audit Scotland and all 25 specified indicators reported were categorised as reliable on the basis of the audit work conducted.

Equality and diversity

140. The Progress and Achievement Group (PAG) is responsible for monitoring and challenging the progress made in taking forward the Council's Single Equality Scheme 2009 – 2012. Its first annual report was published in November 2010. As part of its annual review, it widely consulted with officers, members, partners and involved representatives from all communities of interest groups and others on progress on equalities. The report also incorporates new issues which have arisen over the year which may not have been in the first publication of the Single Equality Scheme.
141. The report concludes that despite the challenges confronting the Council, the PAG has made a good start on delivering on its Action Plan. The Group is pleased with the progress it has made and looks forward to continuing building on its initial success.

Sustainability

142. The Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) is a mandatory scheme designed to assist the Scottish Government in achieving its target of reducing carbon emissions by 1.2 million tonnes per year until 2020. In October 2010 the UK Government announced as part of its Comprehensive Spending Review, that the scheme would be "simplified to reduce the burden on businesses, with the first allowance sales for 2011-12 emissions now taking place in 2012 rather than 2011".
143. The Council's Carbon Management Plan 2010 – 2015 was agreed and adopted by the full Council meeting on 24 March 2010. Capital bids are accompanied by a calculation showing the carbon impact of the proposed project so that carbon impact can be considered when prioritising capital investment.
144. The Council registered for the CRCEES in July 2010. Data was collated on all energy consumption across the Council's portfolio of buildings during 2010/11 and the CRC report for 2010/11 was submitted on time by July 2011.

6. Performance management and improvement

145. Bulletin report EPI/11/260 reported progress with implementation of the CMP to the Enterprise, Planning and Infrastructure Committee in September 2011. It noted that the Council was on track to achieve its target of a 23% reduction in carbon emissions by 2015. The Council's CRC-eligible emissions for 2011/12 are 35,010 tonnes of CO₂. At the initial fixed rate of £12 per tonne of CO₂ the cost to the Council for the year will be £0.420 million which compares favourably with the budget of £0.600 million.

Single outcome agreement

146. The SOA, covering the period from 2009 to 2012, was submitted to the Council in May 2009, and signed by The Aberdeen City Alliance (TACA) and the Scottish Government on 30 July 2009.
147. A thorough review was undertaken in 2010 of the Community Planning Services in Aberdeen City, and an Implementation Plan was developed in January 2011. As a result of the review, from June 2011, a new Community Planning Partnership was established, Community Planning Aberdeen, and a new Board, Community Planning Aberdeen Board. TACA has therefore ceased.
148. A paper was presented to the Corporate Policy and Performance Committee in September 2011 reporting the outturn performance against the indicators and targets agreed by (the former) TACA for 2010/11. Following approval from Committee, this report was then submitted to the Scottish Government in line with the national guidance. As part of the Council's public performance reporting, the report is available through the Council and Community Planning website and a summarised publication will be prepared.
149. The SOA was a key document in preparing the Council's five-year Business Plan. The plan outlines the activities and initiatives which the Council will undertake to achieve its strategic objectives which, in turn, reflect the national priorities set by the Scottish Government, the Concordat and the SOA.

Best value audit

150. Audit Scotland's Best Value progress report, published in July 2009, noted that the Council had taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and the Accounts Commission findings. It noted that the full impact on the action taken to date had yet to flow through; however, the changes to date provide a solid foundation to support on-going improvements.
151. The Chief Executive presented a report to the Full Council in June 2011 updating members on the Council's progress since the publication of the Accounts Commission's Best Value follow-up report. The key issues noted from this report are as follows:
- The Chief Executive is in the early stages of giving consideration to revised decision-making structures to continue the improvements made in streamlining the work of the Council.
 - At the Council's Budget Meeting in February 2011, the Chief Executive was instructed to initiate a review of the Council's management structure in the context of the priority based budget options for the period 2011/2016.
 - The "How Good is Our Council" model of self-evaluation has been adopted as a means of supporting performance improvement.
 - A priority based approach using zero based budgeting principles provided the foundation for a fully-costed five year business plan for 2011/2016.

6. Performance management and improvement

- In agreeing the revised Local Code of Corporate Governance, the Corporate Policy and Performance Committee agreed that it would be helpful for the Council to work to the guidance contained in the Audit Scotland report *Roles and Working Relationships – are you getting it right?* Work has been commissioned by the Director of Corporate Governance on the application and implementation of this guidance, which is due to be concluded this calendar year.

Risk management

152. As reported in our 2009/10 Report to Members, significant improvements were noted in the Council's risk management processes. Both Corporate and Service Risk Registers are now in place and reviewed regularly by the relevant Committee.
153. An update was provided to Members of the Audit and Risk Committee in September 2011 on the scheduled review of the revised Corporate Risk Register and on the progress with the implementation of risk management arrangements across the Council.
154. The Performance and Risk Team within Corporate Governance are adopting an 'Enterprise Risk Management' approach to the Council's strategic risk arrangements. This approach classifies risks according to 'hazard', 'control', and 'opportunity groupings'. It is an approach which emphasises the positive as well as the negative aspects of risk management.
155. Work is continuing to complete the review of service risk registers in accordance with the improvement plan agreed following the internal audit in 2010.
156. The corporate risk manager is seeking to establish effective links between the corporate risk management function and other key functions which impact on the Council's risk framework. These include officers with responsibility for Business Continuity, Emergency Planning, Health and Safety and insurance. In this way, it is intended to build a fully integrated risk management process to support the Council's business planning processes.

Shared Risk Assessment (SRA)

157. The first Assurance and Improvement Plan (AIP) for the Council was published in July 2010, which set out the planned scrutiny activity for the Council for the period April 2010 to March 2013. This was based on a shared risk assessment undertaken by a local area network (LAN) made up of representatives of all of the main local government audit and inspection agencies.
158. The LAN met in late 2010 to update the AIP for the period 2011-14. The update process drew on evidence from a number of sources, including:
 - Our 2009/10 Report to Members
 - The Council's own performance data and self-evaluation evidence
 - Evidence gathered from HMIE, SWIA, SHR and the Care Commission (including published inspection reports and other supporting evidence)
159. The Shared Risk Assessment: Assurance and Improvement Plan 2011-14 was reported to the Audit and Risk Committee in September 2011. Overall, the AIP acknowledges a positive direction of travel, however, has noted there are two areas of scrutiny risk or uncertainly. The first is the Council's political leadership which has been assessed as an area of on-going concern.

6. Performance management and improvement

160. The LAN will continue to monitor the situation as part of its on-going engagement with the Council and if necessary offer scrutiny challenge or support in light of the outcomes of the Council's self-evaluation activity and changing circumstances. Secondly, based on its recent inspection findings, SWIA continue to have significant concern about the performance of the Council's learning disability service. For that reason, SCSWIS (the successor body to SWIA) will be monitoring progress that the Council makes in relation to improving its learning disability service during 2011-12.

National studies

161. Audit Scotland published a number of reports on national studies over the past year. A summary of these reports, together with the Council actions to date, is included at Appendix I.

Outlook

162. The newly established Community Planning Aberdeen and the work carried as part of the development of the five year Business Plan should help the Council and its planning partners in achieving a greater focus on "place" to drive partnership, collaboration and local delivery as envisaged in "Renewing Scotland: The Governments Programme for Scotland 2011-2012 and the Government Economic Strategy".



7 – Follow-up 2009/10 Action plan

Recommendation	Management Response		Update at October 2011
<p>R1 The Head of Finance and his team should ensure the necessary arrangements are in place to fully comply with the IFRS-based Code of Practice on Local Authority Accounting, which replaces the SORP and applies from 1 April 2010.</p>	<p>Urgent action is being taken to address the steps required in order to successfully achieve conversion to the IFRS-based Code.</p> <p>To be actioned by: Corporate Accounting Manager</p> <p>No later than: 30 June 2011</p>		<p>Fully compliant IFRS-based accounts prepared.</p>
	Grade	C	Fully Implemented
<p>R2 Pending the outcome of discussions with OSCR the Council must decide between making the appropriate trust fund disclosures in the 2010/11 accounts and making arrangements for the separate audit of these funds.</p>	<p>Pending the outcome of discussions careful consideration will be given to this matter and appropriate action taken in relation to the 2010/11 year end reporting process.</p> <p>To be actioned by: Corporate Accounting Manager</p> <p>No later than: 30 June 2011</p>		<p>Appropriate disclosure made in 2010/11 accounts.</p>
	Grade	C	Fully Implemented



7 – Follow-up 2009/10 Action plan

Recommendation	Management Response		Update at October 2011
<p>R3 Officers and Trustees should consider how the trust fund information submitted to OSCR can be revised to achieve improvement.</p>	<p>Consideration is being given to improving the trust fund information that's submitted and following the completion of work to rationalise the number of trusts then the Council would expect to see significant improvements. For 2009/10 a response to OSCR earlier in the year has described the process by which additional information will be provided for trusts that are not included in the rationalisation.</p> <p>To be actioned by: Finance Manager</p> <p>No later than: 31 March 2012</p>		<p>Progress on trust fund rationalisation is being made with a meeting with OSCR scheduled to take place in November 2011. This will enable the foundation to be laid for improving disclosure of data submitted.</p>
<p>R4 Pending the outcome of Scottish Government consultation the Council should make the necessary preparations to publish a pension fund annual report by 1 December following the year end. In preparing and publishing the annual report, the Council is required to have regard to guidance issued by the Scottish Ministers.</p>	<p>The Pension Fund already produces an annual report which is published prior to 1 December each year. The report will be reviewed to ensure it complies with the appropriate LGPS regulations, currently being consulted on, and to be introduced as at 1 December 2011.</p> <p>To be actioned by: Pensions Manager</p> <p>No later than: 31 March 2012</p>		<p>Separate pension fund annual report prepared. This is covered in separate audit.</p>
	<p>Grade</p>	<p>C</p>	<p><i>Further action to be undertaken</i></p>
	<p>Grade</p>	<p>C</p>	<p><i>Fully Implemented</i></p>



7 – Follow-up 2009/10 Action plan

Recommendation	Management Response		Update at October 2011
<p>R5 In future the Annual Investment Strategy, the Annual Investment Report and the mid-year review should be presented to the Council for approval.</p>	<p>It is proposed that future reports will be considered initially by Finance & Resources Committee, then referred to Full Council for approval.</p> <p>To be actioned by: Senior Accountant (Treasury / Capital)</p> <p>No later than: 31 March 2011</p>		<p>Mid-year and annual review reported to both the Finance and Resources Committee and the Full Council in December 2010 and June 2011 respectively.</p>
	Grade	B	Fully Implemented

The grading helps management assess the significance of the issues raised and prioritise the action required to address them. The grading structure is summarised as follows:

Grade	Definition
A	Fundamental issues which require the urgent consideration of senior management
B	Significant matters which require the attention of line management
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale



Appendix I – Audit Scotland national studies

Report	Publication date	Summary of findings	Aberdeen City Council action
Getting it right for children in residential care	September 2010	This reports examined how effectively councils use their resources on residential placements for their looked after children and identifies areas for improvement. This work complemented the Scottish Government's strategic review of residential child care services in Scotland, conducted by the National Residential Child Care Initiative. (NRCCI).	<p>The Council started the implementation of its redesign of Children Services in May 2010. The first phase included Fieldwork Services and Family and Community Support Services. Family and Community Support Services has undergone further review and additional redesign is taking place (this is one of the Priority Based Budget options).</p> <p>A review and redesign of Residential Children's Services has just started. The key messages of the report are central to this process. All residential unit managers and their staff are familiar with the findings and recommendations of the report.</p>
Physical recreation services in local government	October 2010	This report examined how physical recreation services are delivered, how Councils plan and manage physical recreation services, how much is spent and where and how services are performing and their impact. It also explored Councils' link with ALEOs, but did not try to compare different models of service delivery or consider which is best. Arrangements used to deliver services vary considerably in terms of size and the types of services provided, and each is expected to take account of local circumstances and the requirements of Best Value.	This report was considered by the Council as part of the transfer of its leisure facilities to Sport Aberdeen.

Appendix I – Audit Scotland national studies

Report	Publication date	Summary of findings	Aberdeen City Council action
<p>Improving energy efficiency: a follow-up report</p>	<p>December 2010</p>	<p>This audit re-evaluated the performance of the public sector in improving energy efficiency. It followed up the key recommendations from Audit Scotland's 2008 report, and looked at how prepared public bodies are for the CRC Energy Efficiency Scheme.</p>	<p>The Council's Energy Strategy and Action Plan form part of the overall Carbon Management Plan (CMP) which was approved by Council in March 2010. This sets out the range of projects, covering a 5 year period, required to achieve the target of reducing the Council's carbon emissions by 23% by 2015, based on a 2008/09 baseline.</p> <p>The Carbon Management Strategy Group is responsible for the implementation of the CMP. Progress is reported to Committee on an annual basis.</p> <p>The performance of the Energy Management team is reported to EP&I Committee as part of the annual report on KPIs. Targets include water and energy consumption reductions.</p> <p>The Council is part of the Carbon Reductions Commitment Energy Efficiency Scheme (CRC) and the latest update on the scheme was presented to Finance & Resources Committee in September 2011, specifically looking at the financial implications. Year 1 reporting (2010/11) showed that Aberdeen City Council was ranked 313 out of 2,103 organisations in the CRC, and in total there are 190 local authorities, Aberdeen being 43rd.</p>



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An overview of local government in Scotland 2010	January 2011	This report provided an overview on the issues arising from local authority audits. Its aim was to provide both a review of recent audit work and an overview of the challenges facing local government in 2011 and beyond. The report includes action points for Councils and key questions for Councillors	The Council approved its 5-year business plan in August 2011 and is working through the year 2 process for its Priority Based Budgeting (PBB), which provided the foundation for decisions to be taken in relation to approving a balanced budget for 2012/13 and beyond.
The cost of public sector pensions in Scotland	February 2011	This report sets out information on the costs of the six main public sector pension schemes in Scotland. It is intended to supplement the independent Public Services Pensions Commission's review and provide clarity, transparency and understanding on the costs and key features of the main schemes that operate in Scotland. It sets out how the schemes operate within the UK framework, how costs are controlled and the governance arrangements for the schemes.	Recommendations in this report are directed towards the Scottish Government however Aberdeen City Council is very aware of the costs and liabilities that arise from the various schemes. The future funding of pensions are a key component of the financial planning and decision making process.



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Maintaining Scotland's roads: a follow-up report	February 2011	The overall aim of the audit was to review the extent to which the recommendations in <i>Maintaining Scotland's roads</i> have been implemented and what has changed as a result.	<p>In relation to best value, the Council carries out work through in-house and external contracts. Although difficult to compare checks are carried out. ACC is part of APSE Performance Networks, and are currently in the running for an award for last year's performance results.</p> <p>ACC is part of the Roads Asset Management Plan (RAMP) managed by SCOTS for all councils in Scotland. An update on progress has been provided to the EP&I Committee on an annual basis, The first full RAMP will be ready in the Spring of 2012 with it being reported to committee in May/June 2012.</p> <p>ACC is part of the Road Condition Surveys that are carried out through SCOTS for all councils in Scotland. The Condition Index is provided on an annual basis and is used to assist in the determination of the programme of works for the following year. Due to the criteria for determining the programme it is used as an indicative tool.</p> <p>Performance indicators are in the process of being developed and benchmarking with neighbouring councils is being looked at and in specific service areas actively progressed.</p>

Appendix I – Audit Scotland national studies

Report	Publication date	Summary of findings	Aberdeen City Council action
How councils work: an improvement series for councillors and officers – Arm’s length external organisations (ALEOs): are you getting it right?	June 2011	This is the second report in Audit Scotland’s “how councils work’ series. It is aimed at Councils that are considering setting up ALEOs to deliver services, as well as those with existing ALEOs. It is designed to promote and encourage good practice in the way ALEOs are set up and operated. The report will be of particular interest to officers and councillors who are responsible for monitoring ALEO performance or who serve on ALEO boards.	During financial year 2010/11 Internal Audit conducted an audit of a sample of ALEO’s and made a number of recommendations, which were accepted by the Council. Furthermore a review of the External Funding and Following the Public Pound concluded with revised guidance being approved by the Council in October 2011.
Transport for health and social care	August 2011	The overall aim of the audit was to assess the efficiency and effectiveness of transport for health and social care in Scotland. It assessed how well agencies work together to plan and deliver transport for health and social care to meet local needs. Where possible, it has identified potential savings and good practice examples.	The report is currently under consideration by management.
Scotland’s public finances: addressing the challenges	August 2011	The report provided an overview of the financial environment facing the public sector in Scotland the cost pressures faces. It outlined what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges.	This report was presented to the Audit and Risk Committee in September 2011, where Members noted the content of the report and remitted the key questions for public sector managers and elected members to the Corporate Management Team for Action.



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Report	Publication date	Summary of findings	Aberdeen City Council action
Modernising the planning system	September 2011	The audit aimed to assess whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. It evaluated the overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on Council's performance in managing planning applications. The private sector also has a role to play in modernising the planning system; however, this was not looked at as part of this audit.	This recent report is due to be considered by the Enterprise, Planning & Infrastructure Committee in January 2012.



Appendix II – Acronyms

AIP	Assurance and Improvement Plan	OSCR	Office of Scottish Charity Regulator
ALEOs	Arms Length External Organisations	PAG	Progress and Achievement Group
CAMS	Corporate Asset Management System	PAMP	Property Asset Management Plan
CIPFA	Chartered Institute of Public Finance and Accountancy	PCA	Procurement Capability Assessment
CPI	Consumer Price Index	PMQA	Performance Management and Quality Assurance
CRCEES	Carbon Reduction Commitment Energy Efficiency Scheme	RPI	Retail Price Index
DWP	Department of Work and Pensions	SCSWIS	The (new) Care Inspectorate
FRS	Financial Reporting Standard	SHR	Scottish Housing Regulator
FSAP	Financial Statements Audit Plan	SOA	Single Outcome Agreement
HMIE	Her Majesty's Inspectorate for Education	SOLACE	Society of Local Authority Chief Executives
HRA	Housing Revenue Account	SORP	Statement of Recommended Practice
IAS	International Accounting Standards	SPI	Statutory Performance Indicator
IFRS	International Financial Reporting Standards	SPSA	Scottish Public Services Ombudsman
INEA	Inspection of the Education Functions of Local Authorities	SRA	Shared Risk Assessment
ISA	International Standards on Auditing	STO	Significant Trading Operations
LAN	Local Area Network	SWIA	Social Work Inspection Agency
LASAAC	Local Authority Scotland Accounts Advisory Committee	TACA	The Aberdeen City Alliance
LGPS	Local Government Pension Scheme	WGA	Whole of Government Accounts
LLP	Limited Liability Partnership		
MIRS	Movement in Reserves Statement		
NRCCI	National Register Child Care Initiative		
NFI	National Fraud Initiative		