



## REPORT TO AUDIT COMMITTEE – 5 JULY 2018

### AUDIT SCOTLAND - COUNCILS' USE OF ARM'S-LENGTH ORGANISATIONS

#### 1 Recommendations

The Committee is recommended to:

- 1.1 Acknowledge the Audit Scotland report on Councils' Use of Arms'-Length External Organisations (ALEOs); and
- 1.2 Consider the recommendations identified for councils and how these may apply now or in future for Aberdeenshire Council.

#### 2 Discussion

- 2.1 On 17 May Audit Scotland published a report titled "Councils' use of Arm's-Length External Organisations (ALEOs)". The document and other related resources are available here: <http://www.audit-scotland.gov.uk/report/councils-use-of-arms-length-organisations>
- 2.2 ALEOs are separate organisations created at the discretion of councils to deliver services, since they can deliver financial and operational benefits. The report estimates there are 130 ALEOs in Scotland – half of them are charitable ALEOs. The report's second appendix lists the common forms of ALEO.
- 2.3 The report's audit work took place in late 2017. The approach involved a sample of nine councils, listed in the first appendix, that make significant use of ALEOs in rural and urban areas, including the three that currently operate social care ALEOs. The audit did not include: housing associations; public-private partnerships, private finance initiatives or other financial partnerships; councils' funding of the numerous smaller-scale activities delivered through the third sector and other external parties; trading operations within councils or other partnership arrangements.
- 2.4 The report has four parts:
  - **Part 1 (page 9)** gives an overview of ALEOs and why councils use them
  - **Part 2 (page 17)** considers councils' oversight and governance of ALEOs
  - **Part 3 (page 27)** examines what ALEOs have achieved
  - **Part 4 (page 35)** considers the future direction of ALEOs
- 2.5 The report found that councils' use of ALEOs is diverse. The visual below indicates the types of ALEOs set up by councils. Frequently these can be set up to achieve more commercial objectives, such as property development, conference facilities and marketing however there is more limited use of ALEOs between councils to deliver shared services.

Approximate numbers of councils using ALEOs to deliver the following services:



2.6 Audit Scotland acknowledges that councils have improved their oversight of ALEOs, but recommendations for improvement include:

- Continue to apply Audit Scotland’s “Following the Public Pound Code”
- Develop careful governance arrangements with clear criteria for councillor or officer involvement
- Ensure Councillors are aware of and apply their Code of Conduct
- Avoid or protect against the risk of conflicts of interest
- Provide training and support to ALEO board members, to ensure they have the skills and experience for the role
- Be more transparent about their use of ALEOs and put in place processes to demonstrate that they provide Best Value

2.7 The report confirms that ALEOs have helped councils to sustain existing services or offer new ones by reducing costs and generating income (for example, through their use in leisure and sport, or social care). However, financial pressures remain, not all social care ALEOs meet their financial targets, and performance in areas like property development has been mixed. The report provides several case studies to illustrate benefits, challenges and processes.

2.8 Use of ALEOs by Councils continues to evolve. In some case ALEOs have been merged, for example sports and cultural ALEOs as they are merged, disbanded (for example in City of Edinburgh and Glasgow City), or created in new areas like affordable energy.

2.9 The report specifically mentions that Aberdeenshire Council considered a full business case for creating a culture and leisure trust in January 2018. However, due to changes to VAT and Non-Domestic Rates Relief, the business case identified a risk that these would not be sufficient to cover the model’s intrinsic additional costs and the Council agreed to cease work on the trust model.

2.10 Audit Scotland highlights how the Council followed this with an investigation on how to deliver a Culture and Sport Business Unit, to provide benefits such as:

- closer involvement from businesses and communities
- innovation and faster decision-making to realise commercial or service opportunities

- expertise in service-specific areas, such as marketing
- 2.11 Creating a separate business unit is one of the alternatives to ALEOs proposed by the report. Other alternatives include using a difference form of social enterprise to generate and invest income, using planning contributions paid by developers, and involving communities and businesses more closely in service delivery. In 2015 Aberdeenshire Council's Scrutiny and Audit Committee investigated Alternative Delivery Models (ADMs) for delivering services, but it recognised that an ADM is not an inevitable vehicle with which to deliver savings. It determined that maximum internal efficiency should be achieved before considering an ADM, and any model should have a rigorous options appraisal and a business case. The key recommendations from the investigation are attached as Appendix 1.
- 2.12 The report states that ALEOs remain an important option for councils but it suggests that councils should first review how existing ALEOs are performing, have a clear reason for creating a new ALEO, and ensure that they have long-term sustainability. The third appendix suggests more factors for councils to consider when developing a business case for an ALEO.
- 2.13 The Accounts Commission will continue to consider how councils use ALEOs and the extent to which they meet their objectives in future audits.
- 2.14 As highlighted at paragraph 2.6, the report makes specific recommendations to councils which are detailed at Appendix 2. Committee may wish to consider these in conjunction with the previous investigation recommendations and propose actions as appropriate

### **3 Scheme of Governance**

- 3.1 The Committee is able to consider [and take a decision on] this item in terms of Section G.1.3 of the List of Committee Powers in Part 2A of the Scheme of Governance as it relates to the review financial statements, management letters or reports and compliance with relevant codes of practice.

### **4 Implications and Risk**

- 4.1 An equality impact assessment is not required because the report is to advise Committee of performance and does not have a differential impact on any of the protected characteristics.
- 4.2 There are no financial risks or Town Centre First Principle implications arising from this report.
- 4.3 The following risks have been identified as relevant to this matter on a Corporate Level:
- ACORP004 Business and organisational transformation

**Ritchie Johnson**  
**Director of Business Services**

**Report to Aberdeenshire Council – 18 June 2015**  
**A Report by Scrutiny And Audit Committee On – Alternative Delivery Models**  
**Recommendations:**

1. Alternative Delivery Models should not routinely be viewed as the only means to save money, or deliver services more efficiently
2. Prior to determining that an Alternative Delivery Model should be pursued, the outcomes sought should be clear, and the Council should have explored all possible avenues to optimise the service
3. Where a decision is made to pursue an Alternative Delivery Model subject to (1) and (2) above, the matters set out below should be taken into consideration by both councillors and officers
  - a. Why is an Alternative Delivery Model being considered?
  - b. What services/functions are being included in/excluded from consideration?
  - c. How will the Alternative Delivery Model be set up? .
  - d. Who should be involved in the process of determining the type of Alternative Delivery Model to be utilised and its implementation
  - e. When should implementation take place

## **Audit Scotland - Councils' Use of Arm's-Length Organisations Recommendations**

In deciding whether an ALEO is the best way to provide services over the longer term, while providing value for money, councils should:

- examine wider options that can bring similar benefits to ALEOs such as reorganising an existing service, sharing services with other councils, or involving the local community
- demonstrate how ALEOs help the council meet its objectives and improve outcomes for their communities
- set clear criteria for reviewing an ALEO, considering risks, performance and how it fits with council priorities.

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they:

- oversee the performance, financial position, and associated risks of ALEOs
- have clear reasons for appointing councillors and officers to ALEO boards, recognising the responsibilities and requirements of the role, and the risks of conflicts of interest
- provide training, support and advice from both the perspective of the council and the ALEO. This should include legal responsibilities, scrutiny and oversight, and conflicts of interest
- have processes in place to manage any potential conflict of interest of elected members and officers involved in the operation of ALEOs
- take an active role in managing their relationship with ALEOs, including their compliance to service level agreements, contracts and other obligations
- make information about ALEO funding and performance clear and publicly available.