

Agenda Item	9
Report No	AS/10/18

HIGHLAND COUNCIL

Committee: Audit and Scrutiny

Date: 14 June 2018

Report Title: **Audit Scotland: Councils' use of arm's-length organisations**

Report By: The Depute Chief Executive/Director of Corporate Resources

1. Purpose/Executive Summary

- 1.1 An Audit Scotland report on councils' use of arm's-length organisations (ALEO) was published on 17 May 2018. The report provides an overview of local authority use of ALEOs including their governance and achievements. Within Highland Council two ALEOs were invited to participate these were High Life Highland and Beinn Tharsuinn Windfarm Community Limited.
- 1.2 The report looked at four elements: the reasons for using ALEOs, how councils oversee and govern them, what they have achieved along with the future direction of ALEOs. The recommendations focused on the need for options appraisal to ensure value for money, ALEOs contribution to achievement of councils' objectives and priorities along with risk and performance management. The report concludes that councils must keep ALEOs under review and consider alternatives. Overall Highland is well placed in meeting the findings and recommendations of the report.

2. Recommendations

2.1 Members are asked to:

- I. Note and comment on the national report in the local context.

3. Introduction

- 3.1 The Audit Scotland report on Councils' use of arm's-length organisations (ALEO) was published on 17 May 2018. The report provides an overview of local authority use of ALEOs including their governance and achievements. Audit Scotland examined practice across a sample of councils and drew on the finding of relevant audit activity in order to highlight key messages in relation to ALEOs for all councils. Within Highland Council two ALEOs were invited to participate these were High Life Highland and Beinn Tharsuinn Windfarm Community Limited. The full report is provided as **Appendix 1** of this report.
- 3.2 The report looked at four elements: the reasons for using ALEOs, how councils oversee and govern them and what they have achieved. Overall the report recognises that tax benefits have been a driver and that oversight has been strengthened but both these issues have risks associated with them. There is recognition that ALEOs have brought cost benefits but that cost pressures remain. In terms of future direction the report concludes that councils must keep ALEOs under review and consider alternatives to deliver Best Value in terms of assessment cost, quality and other service benefits.

4. Areas of Review and Findings

- 4.1 An ALEO in Scotland is understood to be a separate organisation used by councils' to deliver services which can bring both financial and operational benefits. Audit Scotland suggests more could be done to develop business cases for ALEOs and also more to involve stakeholders including the public. Overall councils are seen as improving how they plan and appraise ALEOs but councillors must provide direction and understand the range of options available and their potential risks and benefits.
- 4.2 Within Highland Council Redesign an ALEO is one of 10 options to consider for service delivery within the peer review process. This approach follows the principles of Following the Public Pound on the use of an options appraisal approach and a sound business case to inform decisions. The Redesign Board provides leadership and strategic direction to peer reviews. To date one peer review has led to transferring a function to an ALEO; the music tuition service to High Life Highland. The Highland Council's Redesign process is noted in the report (paragraph 27) in relation to strengthening Members and Officers understanding of options appraisal.
- 4.3 The report also highlights that councils could do more to involve communities in their choice of options (paragraph 30). In Highland the Redesign process has actively used our Citizen Panel's opinions on services to inform the Board's work. Both peer and lean reviews continue to draw on the user's views as part of the evidence gathering for reviews. The Board have agreed a new type of review, a community review, to be trialled in 2018/19. This will involve some local communities being involved in local review activity including options for service delivery.
- 4.4 Most councils use ALEOs and they provide a range of services, vary in structure with some being registered charities and their use continues to evolve. ALEOs can bring the benefits of a more independent organisation

providing a responsive and more focused operating model under the direction of a dedicated board. Councils in retaining control or influence must however also ensure ALEOs deliver the best outcomes for communities.

- 4.5 While tax advantages have been a driver along with more flexibility to secure funding and trade opportunities these are subject to change, particularly tax benefits which are now seen as a potential risk. Following the Barclay Review the Scottish Government rejected the Barclay recommendation to lift the rates relief for leisure and cultural venues run by the arm's-length bodies of local councils. Whilst existing ALEOs will continue to benefit from charity relief from non-domestic rates, new ones will not, with a risk of charitable benefits being offset to deter future use of ALEOs.
- 4.6 There are important connections made between this national report and previous Audit Scotland reports including Following the Public Pound and its principles, accessible at: <http://www.audit-scotland.gov.uk/report/following-the-public-pound> and also How Council's Work – Arm's-length external organisations (ALEOs):are you getting it right?, accessible at: http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf
- 4.7 Attention is drawn to these documents as they reinforce the need for oversight, accountability and good management. While it is recognised that councils have strengthened their oversight of ALEOs risks are still seen in terms of: clear roles and responsibilities for councillor and officer oversight along with scrutiny that is proportionate to risk. Councils must also have clear reasons for appointments to ALEO boards and these should focus on the skills and experience required of the board. In addition there are potential conflicts of interest for councillors and officers that should to be managed through the relevant codes of conduct, training and advice to protect board members.
- 4.8 In the last review of High Life Highland by The Office of the Scottish Charity Regulator (OSCAR) there was positive feedback on governance arrangements and no issues were identified in their final report on ALEOs. Current monitoring arrangements, in addition to the role of the High Life Highland Board, include fortnightly contract and monthly property meetings, scrutiny through the Chief Executive's quarterly performance reviews and 6 monthly reporting to the Care, Learning and Housing Committee.
- 4.9 In relation to what ALEOs have achieved Audit Scotland recognise that councils have used ALEOs to sustain existing services and offer additional services through reducing costs and generating income. ALEOs have reduced the costs of sports and leisure services through tax benefits, new funding and increases participation. High Life Highland (HLH) is recognised in the report for realising £9.1m of savings in its first five years (paragraph 65). HLH is also highlighted for linking leisure and wellbeing and working in partnership with NHS Highland physiotherapy and rehabilitation services from community leisure facilities. The development of its dance programme encouraging teenage girls to participate in exercise, training over 300 students to lead and over 2600 to participate is also noted (paragraph 68).

5. Audit Scotland recommendations

- 5.1 Audit Scotland recommends that 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 such as reorganising an existing service, sharing services 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;
- The need to continue to apply Following the Public Pound principles in relation to ALEO oversight, board appointments, managing conflicts of interest, having an active role in contract or service level agreement compliance and ensuring that information on ALEO funding and performance is publicly available.

5.2 Overall Highland Council is well placed in terms of meeting the findings and recommendations of the report in relation to good governance, managing risk and also in its approach to options appraisal through Redesign. As outlined above examples of good practice by HLH were also identified within the report.

6. Implications

6.1 Resource, Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever and Gaelic. There are no direct implications as the report provides a high level view of the national context.

6.2 Risk – The report highlights a number of key areas of risk for local government in Scotland in managing ALEOs which need to be considered as part of the performance monitoring and oversight of the Council's ALEOs going forward.

Designation: The Depute Chief Executive/Director of Corporate Resources

Date: 05 June 2018

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Background Papers:

- a) Audit Scotland – Councils' use of arm's-length organisations