

Project scope

Are ALEOs improving council services?



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
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Background

Councils are facing increasing service demands at a time of cost and public funding pressures. To meet these challenges they need to consider different options for delivering services. For many councils this has included the option of using what are known as 'arm's-length external organisations' (ALEOs). To do this effectively, officers and elected members need to be clear on the costs and benefits of this way of delivering services. They also need to be aware of the risks should something go wrong. These include the risk of service failure, and financial and reputational risks to the council and to the officers and elected members involved.

We define ALEOs as companies, trusts and other bodies that are separate from the local authority but are subject to its control or influence. There is no legal definition for an ALEO and they can take many forms including companies, charities, and community enterprises.

ALEOs began to be more commonly used by councils in the 1990s, primarily to deliver sports and leisure

activities. Their use has grown steadily and they are now widely used for property, transport, economic development, and more recently, care services. We estimate that there are around 130 significant ALEOs in Scotland, with a turnover of £1.3 billion, employing over 28,000 people.

Councils say that ALEOs can both save money and bring service benefits. About a third of ALEOs have charitable status and this attracts business rates relief. ALEOs can bring in additional income through selling services more widely. It is also said that their independence and their focus on the business at hand can make them more responsive to customers.

Why is this audit important?

The Accounts Commission sees councils' use of ALEOs as an important area of public interest. ALEOs are now a common feature of local government, the scale of services provided through them is significant, and they are being increasingly used to deliver critical services such as older people's care.

The Commission noted in its 2011 How Councils Work report [Arm's-length external organisations \(ALEOs\): are you getting it right?](#)  that it is not always clear whether ALEOs have met their objectives. The Commission has also noted that while councils' governance of ALEOs is improving, there is still some variation across councils. This audit aims to give public assurance over councils' use of ALEOs and the extent to which they are achieving their intended benefits. The report will also help to share good practice between councils and lessons learned when problems have arisen.

What the audit will look at

We have identified a number of issues of interest for this audit. We will examine:

- the number and functions of ALEOs and the expenditure directed through them
- the extent to which ALEOs are improving services for the people that use them
- the extent to which ALEOs are providing value for money and meeting their intended objectives
- whether councils have sound governance and controls in place, taking into account the Following the Public Pound (FPP) code , and the skills, knowledge and experience of board members
- whether councils have clear reasons and objectives for their use that have taken other options into account and are founded on a clear business case.

On-going issues that are developing in relation to this topic include the integration of health and social care services, and the community empowerment act. This performance audit will not look at these areas in detail but may touch on aspects of these as appropriate in the context of ALEOs.

How we will carry out the audit

It will not be possible to examine all ALEOs and the diverse services that they offer. We will however identify a sample of councils and ALEOs from across

Scottish councils. This will also allow us to examine councils' use of ALEOs in more depth. We will also carry out research to give an update on the current scale and trends in the use of ALEOs across councils.

We will use a range of methods including: reviewing documents, eg business cases, financial accounts, performance and customer satisfaction reports; and interviewing stakeholders, such as elected members, council officers and representatives from ALEOs. We will also draw on published research and available survey information on this topic.

What impact will the audit have?

This audit is being carried out on behalf of the Accounts Commission, which operates impartially, and independently of councils and of the Scottish Government.

The audit will help to give public assurance over councils' use of ALEOs, commenting on the quality of the services provided and the value for money they deliver. The report aims to provide insight to help councils take effective decisions over the future of service delivery in important areas. It will also help councils to put in place effective governance to safeguard services and the public money invested in them.

ALEOs are one means among many used by councils to provide services. Other methods include: contracts with external providers; joint boards, committees or partnerships; and various commercial arrangements such as private finance initiative projects. Many of the issues and lessons for effective management and governance of ALEOs will be common to these approaches as well.

We will continue to monitor how councils respond to the recommendations arising from this work in our on-going audit work in local government.

Timetable and contacts

We plan to publish the report in Spring 2018. For further information please get in touch with Peter Worsdale, pworsdale@audit-scotland.gov.uk 



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