

Policy and Sustainability Committee

10.00am, Tuesday, 25 February 2020

Arm's Length External Organisation's – Reporting to Committee

Executive/routine
Wards
Council Commitments

1. Recommendations

- 1.1 To approve the reporting approach as set out in paragraphs 4.10 - 4.13.
- 1.2 To note that the Chief Executive would be undertaking a wider review on how the Council works with its Arm's Length External Organisations.

Andrew Kerr

Chief Executive

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Report

Arm's Length External Organisations – Reporting to Committee

2. Executive Summary

- 2.1 This report aims to set out clear reporting arrangements to the Council for the Council's arm's length external organisations (ALEOs).

3. Background

- 3.1 As stated in the Accounts Commission's report on the Councils' use of arm's length external organisations (May 2018), oversight, accountability and good management are essential to deliver effective public services.
- 3.2 The City of Edinburgh Council operates a number of ALEOs to deliver designated services. Whilst the ALEO takes on responsibility for the delivery of service, the Council retains responsibility for the proper and prudent use of public funds and achieving best value.
- 3.3 Due to these responsibilities, it is essential that the Council has effective governance arrangements in place that support arrangements within the individual ALEOs.

4. Main report

- 4.1 Arrangements for ALEOs reporting to the Council was set out in May 2016. Implementation of the arrangements has been mixed and further clarity is necessary. This report aims to set out those reporting arrangements.
- 4.2 The 2018 Accounts Commission report on the Councils' use of arm's length organisations detailed that Councils and Council companies must continue to apply the principles set out in the 'Following the Public Pound Code'
- 4.3 The Following the Public Pound Code sets out six principles that require Councils to:
- have a clear purpose in funding an ALEO;
 - set out a suitable financial regime;

- monitor the ALEO's financial and service performance;
- carefully consider representation on the ALEO board;
- establish limits to involvement in the ALEO; and,
- maintain audit access to support accountability.

4.4 The report also details that the monitoring of financial and service performance should include:

- how ALEOs secure best value;
- how ALEOs improve outcomes for people;
- consider risks, performance and how the ALEOs fits with Council priorities; and,
- consider compliance with Service Level Agreements, contracts and other obligations.

4.5 The Council's compliance with the principles set out in the Following the Public Pound Code is much wider than just committee consideration, it applies to the Council's interactions with its ALEOs at all levels. The Chief Executive intends to review how the Council works with its ALEOs, examining its shareholder agreements and Service Level Agreements that it holds with these bodies to ensure a greater degree of consistency and clarity of relationship.

4.6 It is important to note that an ALEO board needs to act independently when determining how to meet its objectives. Scrutiny of the ALEO by the Council should not exercise control over the ALEO and should not merely replicate the scrutiny of the board.

4.7 Some of the Council's ALEOs are also registered charities and as a result are regulated by the office of the Scottish Charity Regulator (OSCR). This is an important consideration for committees as for example charities are no-profit making.

4.8 In June 2016, the Council agreed reporting arrangements for Council companies. This followed an internal audit that highlighted a potential conflict of interest for executive committee members scrutinising a company that they were also board directors. As a result, the Council separated the scrutiny of ALEOs between the relevant executive committee and the Governance, Risk and Best Value Committee (GRBV).

4.9 The division of scrutiny between executive committees and Governance, Risk and Best Value Committee is essential to ensure that potential conflicts of interest are mitigated. However, the separation of scrutiny between GRBV and executive committees has not always been clear, and duplication of scrutiny has been common.

4.10 To provide clarity, ensure relevant matters are fully considered and avoid duplication there should be a clear delineation between the committees

It is proposed that:

- Executive Committees – should scrutinise the future direction of the ALEO, performance of service delivery, progress against any agreements such as Service Level Agreements, and any emerging issues.
- Governance, Risk and Best Value Committee – should scrutinise the ALEO's financial performance and any risks impacting the Council and/or ALEO.

4.11 Reports should also include the company's annual accounts. It should be noted that there may be occasions that some information in the report will not be able to be made public due to commercial sensitivity; this though should be kept to a minimum.

4.12 It is recommended that a representative from the ALEO's executive is present for consideration of reports. The Council observer should also be present.

4.13 Committee reports should include a section from the Council's observer with any comments they have on the company, risks to the Council and the overall operation of the organisation.

5. Next Steps

5.1 If agreed, the reporting arrangements will be provided to the relevant ALEOs and Council directorates.

6. Financial impact

6.1 There is no financial impact as a result of this report.

7. Stakeholder/Community Impact

7.1 None

8. Background reading/external references

8.1 [City of Edinburgh Council 30 June 2016 – Council Companies](#)

8.2 [Audit Scotland – Council's Use of arm's length organisations](#)

9. Appendices

Appendix one – list of ALEOs who report to committee

Appendix One

	Company	Committee
1	Capital Theatres Trust	Culture and Communities
2	Transport for Edinburgh	Transport and Environment
3	Lothian Buses	Transport and Environment
4	Edinburgh Trams	Transport and Environment
5	Capital City Partnership	Housing, Homelessness and Fair Work
6	Edinburgh Leisure	Culture and Communities
7	Edinburgh International Conference Centre	Housing, Homelessness and Fair Work
8	Marketing Edinburgh	Housing, Homelessness and Fair Work