

Governance, Risk and Best Value Committee

10.00am, Tuesday, 7 July 2020

Arm's Length External Organisations – Scope of Review 2020

Executive/routine
Wards
Council Commitments

1. Recommendations

- 1.1 To feed back on the proposed scope of the review of Arm's Length External Organisations.
- 1.2 To note the process for committee reporting agreed by the Policy and Sustainability Committee.
- 1.3 To note that wider ALEO delivery as a result of COVID-19 is being considered as part of the Adaptation and Renewal Programme

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Chief Executive

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Arm's Length External Organisations – Scope of Review 2020

2. Executive Summary

- 2.1 This report highlights the decision of the Policy and Sustainability Committee of 25 February 2020 regarding the reporting of Arm's Length External Organisations (ALEOs) to committee. In addition, the report outlines further detail on the planned review of ALEOs by the Chief Executive.

3. Background

- 3.1 On 25 February 2020 the Policy and Sustainability Committee agreed that:
- 3.1.1 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.
 - 3.1.2 Governance, Risk and Best Value Committee – should scrutinise the ALEO's financial performance and any risks impacting the Council and/or ALEO.
 - 3.1.3 Reports should include the company's annual accounts. It should be noted that there may be occasions when 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.
 - 3.1.4 A representative from the ALEO's executive is to be present for consideration of reports. The Council observer should also be present.
 - 3.1.5 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.
- 3.2 The Committee also noted that the Chief Executive intends to review how the Council works with its ALEOs, examining the shareholder agreements and Service Level Agreements that it holds with these bodies to ensure a greater degree of consistency and clarity of relationship.

- 3.3 Since then all ALEO operations have been impacted by the COVID-19 pandemic. Each ALEO is currently working through its recovery planning and this work is part of the Adaptation and Renewal Programme.

4. Main report

- 4.1 The review of ALEOs has been delayed by the Covid-19 pandemic but work will commence in Autumn 2020 following the completion of the review of political management arrangements due in late August 2020. The scope of this review has not yet been agreed but discussions have commenced on what should be included.
- 4.2 The review will predominantly look at the governance of each ALEO and its relationship with the shareholder. It will also link in with the work of individual directorates and the Adaptation and Renewal programme but it will not consider whether individual ALEOs are providing best value or require transformation.
- 4.3 The initial step to inform the scope of the review will be engagement with elected members, officers and key officials from ALEOs. This engagement will seek views on what improvements are required and where there are instances of best practice.
- 4.4 The following have been identified as potential principles for the review:
- 4.4.1 Consistent and modern ALEO documentation – Ensure that there are up to date, clear and consistent shareholder agreements and Service Level Agreements (SLAs) with all ALEOs, to include some guiding principles of governance that the shareholder requires of the ALEO.
 - 4.4.2 Clear performance targets or strategic objectives from the Council - The SLAs should include key performance targets or strategic objectives for the ALEOs from the Council;
 - 4.4.3 Increased support for Council observer role – Review the role of Council observer, with clear guidance and requirements of the role outlined for both the observer and the ALEO;
 - 4.4.4 Improved online guidance - Creation of an ALEO section on the Intranet including clear guidance and procedure for the creation of a new ALEO, guidance on reporting and clarity on roles and responsibilities;
 - 4.4.5 Improved training resource - Establish training on directors' duties and liabilities for Council observers;
 - 4.4.6 Transparent and effective Council process - Review shareholder intervention protocols in the event of an ALEO encountering significant difficulties; and
 - 4.4.7 Modern and effective board structures – Consider whether Board structures/membership need to be improved in light of equalities legislation and to ensure greater resilience. Conflicts of interest should also be considered as part of this work.

- 4.5 This scope is still to be agreed but Committee is requested to provide its feedback on areas that it deems important to be included in the Review.

5. Next Steps

- 5.1 Following feedback from committee, there will be engagement with elected members, officers and ALEOs on the scope of the review and how it feeds into and aligns with consideration of wider ALEO delivery as part of the Adaptation and Renewal Programme.

6. Financial impact

- 6.1 There are no financial consequences as a result of this report.

7. Stakeholder/Community Impact

- 7.1 This report sets out an approach for consultation on its relationship with ALEOs.

8. Background reading/external references

- 8.1 City of Edinburgh Council 13 December 2012 – [Council Companies](#)
- 8.2 City of Edinburgh Council 30 June 2016 – [Council Companies](#)
- 8.3 Governance, Risk and Best Value Committee 28 August 2018 – Accounts Commission: [Councils' use of arm's length organisations](#)
- 8.4 Policy and Sustainability Committee 25 February 2020 – [Arm's Length External Organisations – Reporting to Committee](#)

9. Appendices
