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Press release

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Councils provide £200 million to arms-length organisations

In a report published today the Accounts Commission for Scotland expresses concerns about the way councils manage their financial relationships with arms-length organisations. The report says that councils provide around £200 million to approximately 12,000 external organisations.

The report is based on a survey, by Audit Scotland, to assess the amounts involved and the effectiveness of councils' monitoring arrangements where they provide funds to arms-length organisations such as companies, trusts and voluntary organisations. The survey findings suggest that some councils may not be complying with the best practice principles, as set out in the "Code of Guidance on Funding External Bodies and Following the Public Pound".

The Commission is asking Audit Scotland to carry out further work to clarify how much money is involved, where it goes and what steps councils are taking to improve their governance arrangements.

Commenting on the findings of the review, Accounts Commission Chairman, Alastair MacNish says,

"Councils provide a significant amount of public money to organisations outwith their direct control to deliver a range of services, particularly relating to social work, leisure and economic development.

"As councils become more involved in partnership working and find innovative ways of delivering services it will become increasingly important that they maintain control and accountability over public funds.

"This review suggests that there are a number of areas where councils are not complying with good practice guidance in their relationships with external organisations and raises a number of unanswered questions. The Commission remains concerned about this so we have asked Audit Scotland to carry out further work. We will make a further public report when that work has been completed and in the meantime we are asking auditors to follow-up the initial results with councils."

Other findings of the review:

1. Councils were unable in all cases to easily identify the purpose of funding provided to arms-length organisations
2. Councils can improve the way they monitor and verify the financial and service performance aspects of funding agreements.
3. Elected members and council officers often participate in the governing boards or managing committees of funded bodies, but often there appears to be no obvious link between council membership and the significance of the funds provided.
4. There is evidence of good practice at a number of councils and examples of these are cited in this report.
5. The process of completing the Audit Scotland questionnaire has prompted some councils to review their arrangements for managing funding relationships.

The Commission is asking Audit Scotland to carry out further work as a priority to establish:

Audit Scotland provides services to the Auditor General for Scotland and the Accounts Commission

- The action taken by councils to apply the Code to funding relationships already in place
- The steps being taken by councils to apply it to new funding relationships
- The extent of implementation of improvements being made by councils in management information systems and controls
- The amounts going to companies and trusts which receive high value funding from councils and the amounts going to the large number of organisations which receive relatively small individual grants, and the way in which councils are dealing with both categories.

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Notes to editors

1. The Accounts Commission is an independent body of 12 members which is independent of both central and local government. It was set up in 1975. The Commission uses the audit process and value for money studies to ensure that local authorities, fire and police boards spend £9 billion of public money properly and wisely. The Accounts Commission appoints the external auditors of all Scottish Councils.
2. Issues arising from the audit of local authorities are reported to the Accounts Commission through the Controller of Audit who is an independent, statutory officer. The Controller of Audit can make reports in the public interest.
3. The Accounts Commission has the power to make recommendations to councils and to Scottish Ministers. The Commission also has a discretionary power to hold a hearing to allow those involved to have their say and seek clarification on specific issues.
4. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. It provides services to the Accounts Commission and the Auditor General for Scotland.
5. The Commission identified the need for a review of councils' involvement with arms-length organisations, following the report on Fife Council and the Third Age Group.
6. The "*Code of Guidance on Funding External Bodies and Following the Public Pound*" was produced jointly by the Convention of Scottish Local Authorities and the Accounts Commission.
7. Arms-length bodies include companies and trusts in which the council providing the funds may have a controlling interest.
8. £200 million is equivalent to 2% of the total £9 billion spent annually by councils.