

# Following the Public Pound

A follow-up report

Key messages / Prepared for the Accounts Commission

December 2005



# Key messages

## Background

1. Councils fund arms-length and external organisations (ALEOs) to provide important services to the public, or to provide social benefits such as employment opportunities. These funding arrangements are often more complex than purchase contracts for goods or services.

2. To ensure that public money is used properly and achieves value for money, it must be possible to trace funds from the council to where they are ultimately spent – to ‘follow the public pound’ across organisational boundaries.

## The study

3. In March 2004 Audit Scotland reported that councils provided about £200 million to 12,000 companies, trusts and other ALEOs in 2001/02, and that there was a low degree of compliance with the *Code of guidance on funding external bodies and following the public pound* (the Code).

4. The Code promotes proper accountability for public funds when councils support ALEOs. Councils should have a clear purpose and timetable in funding an ALEO; set out a suitable financial regime; monitor ALEOs’ performance; carefully consider representation on the boards of ALEOs; and provide access for auditors.

5. Audit Scotland has now carried out a fuller study of councils to provide more information about the funding of ALEOs and how councils perform against the Code.

6. Each council’s external auditor has prepared a local report that includes an action plan agreed with the council.

## Key messages

**1 Councils provided £220 million to 14,000 ALEOs in 2003/04. There was no direct relationship between the size of councils’ overall budget and the proportion of it provided to ALEOs**

7. Councils’ spend on ALEOs as a proportion of their total budget averaged 2.4% across Scotland, ranging between 0.4% in East Dunbartonshire and 18% in Orkney (Exhibit 1).

8. Total expenditure varied from less than £1 million by East Dunbartonshire up to £46 million by Edinburgh, which accounted for one fifth of all Scottish councils’ financial support for ALEOs.

9. In 2003/04 more than half (around 8,500) of the ALEOs supported by councils were voluntary and community organisations. The remainder were charities and companies.

10. Over 83% of individual awards to ALEOs were for less than £10,000. About 3% of the total number of awards were for over £100,000, but these accounted for 60% by value. (Exhibit 2).

**2 Councils need better information about their support for ALEOs, the intended benefits and what is obtained for the money provided**

11. The majority of councils did not have a corporate system for managing financial support to ALEOs and had difficulty in providing the data we requested. Those councils that did have a corporate system were more effective in their dealings with ALEOs.

12. Where good information is lacking, council members cannot exercise their scrutiny responsibilities effectively.

13. Councils provide ALEOs with non-cash support through the free or low-cost use of council properties, vehicles and facilities. This support needs to be considered as part of councils’ overall approach to asset management. Few councils had policies covering non-cash support or a full picture of its value. Both financial and non-cash support should be considered in committing resources to ALEOs.

**3 Councils do not have a systematic, risk-based approach to dealing with ALEOs**

14. While the spend on ALEOs was about 2.4% of overall council budgets, this type of expenditure inherently presents more risk to councils.

15. There was little evidence of councils adopting a consistent and comprehensive approach to risk management that takes account of factors such as the amounts of funding, the size of ALEOs, and how they are managed. Internal audit has experience of assessing risk and could play a stronger role in councils’ dealings with ALEOs.

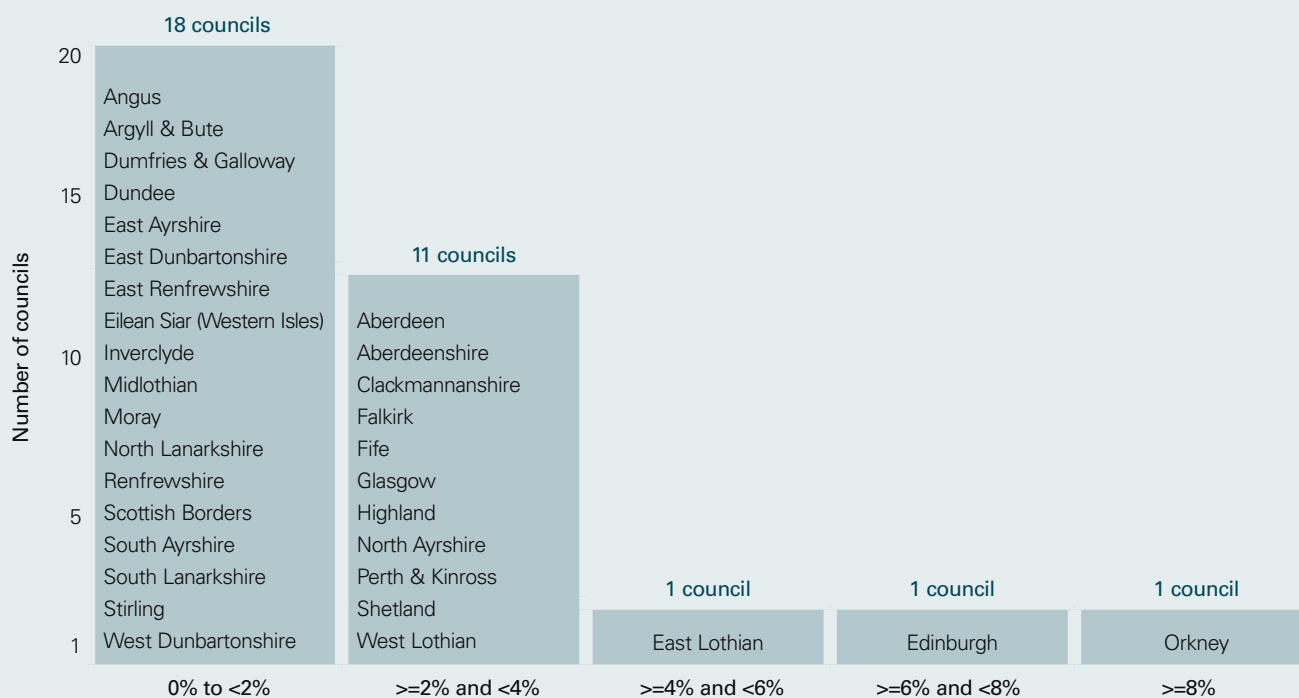
**4 ALEOs highlighted opportunities for councils to improve**

16. ALEOs interviewed during the study highlighted opportunities for councils to improve their dealings with them. This is particularly so where an ALEO is funded by several councils.

## Exhibit 1

### Councils' relative support for ALEOs

Councils' spend as a proportion of their total budget averaged 2.4% across Scotland.



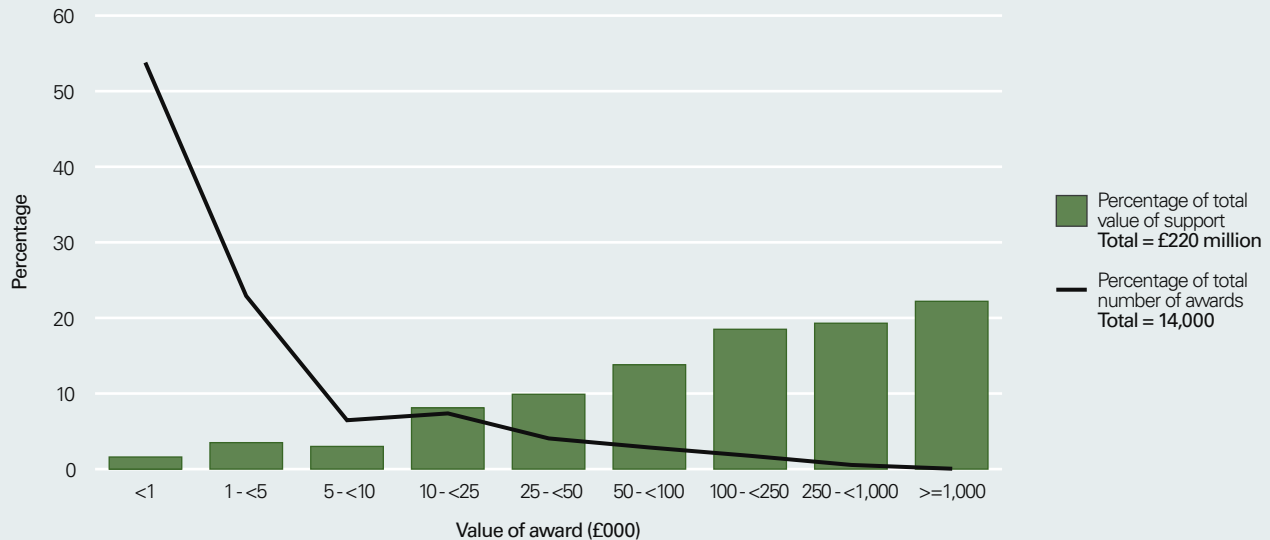
**Note:** Relative council spend = percentage of the council's total revenue budget that was spent on ALEOs, in 2003/04.

**Source:** Audit Scotland

## Exhibit 2

### The value and number of awards

Over 83% of individual awards to ALEOs were for less than £10,000. About 3% of the total number of awards were for over £100,000, but these accounted for 60% by value.



Source: Audit Scotland

**17.** For example, a group of councils could agree a lead council for dealing with ALEOs across a particular geographical area or service sector; harmonise policies and procedures for handling applications for assistance; and monitor their results.

### 5 No council fully complied with the Code and all councils must improve their performance

**18.** Audit Scotland assessed the extent to which councils complied with the best practice principles set out in the Code, and allocated councils to one of three levels of overall performance (Exhibit 3, page 4). The study found:

- a high level of performance in nine councils
- a moderate level in 18 councils
- a low level in five councils.

**19.** There was no correlation between the total amount of funding that councils provided to ALEOs or the number of ALEOs funded, and the level of performance against the Code.

**20.** Most councils made no distinction between the way in which they dealt with ALEOs receiving high-value funding compared with those receiving relatively small amounts. Also, funding arrangements established more recently were not necessarily more compliant with the Code than long-standing arrangements.

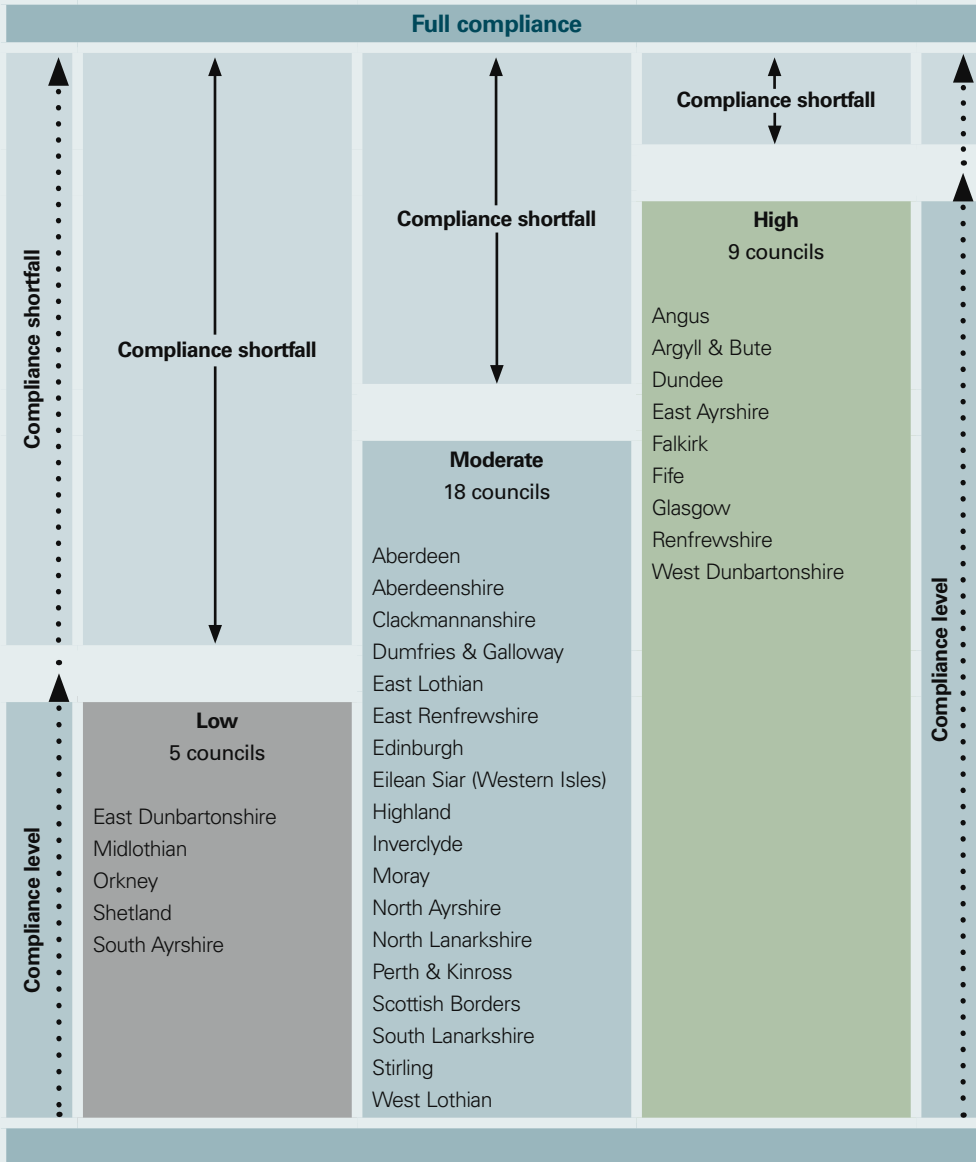
### 6 There is scope to review and update the Code

**21.** The Code's broad principles are as relevant today as when it was published in 1996. However, councils' business context and expectations of them have changed since then, particularly around Best Value and Community Planning. Therefore, there is scope to review the Code.

### Exhibit 3

#### Councils' compliance with the Code

No council fully complied with the Code overall. The compliance shortfall was greatest in the five councils that displayed a low level of compliance. However, all councils must improve their performance.



Source: Audit Scotland

# Key recommendations

## Recommendations

Councils should:

- develop a corporate register of all support for ALEOs. This should enable councils to track both financial and non-cash support, and the extent to which ALEOs contribute to council objectives
- develop a corporate policy on non-cash support for ALEOs and recognise its value, within their overall approach to asset management
- take an informed, risk-based approach to dealing with all ALEOs they support, and target resources for scrutiny accordingly
- explore opportunities for joint working with other councils
- use this report and their external auditor's local report to improve performance against the Code.

More generally:

- The Convention of Scottish Local Authorities (COSLA), the Scottish Executive and the Accounts Commission should discuss how the Code can best be updated so that it remains relevant and useful in today's more complex environment.

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