

delivering good governance

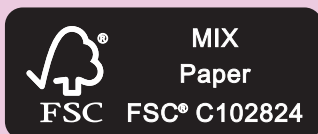
in Local Government
Guidance Note for English Authorities
2012 Edition



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Preface

This revised guidance note relates to *Delivering Good Governance: Framework*, published in 2007, and its subsequent addendum, published in 2012, which are intended to be used as best practice for developing and maintaining a locally adopted code of governance.

The purpose of this guidance note is to assist authorities and partnerships in reviewing the effectiveness of their own governance arrangements by reference to best practice and using self-assessment.

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SECTION 1

Introduction

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT: FRAMEWORK

The Framework *Delivering Good Governance in Local Government*, published by CIPFA in association with SOLACE in 2007, sets the standard for local authority governance in the UK. CIPFA and SOLACE reviewed the Framework in 2012 to ensure that it remains ‘fit for purpose’ and issued an addendum to it in the Autumn of 2012 which provides an updated example annual governance statement. The Framework urges local authorities to review and report on the effectiveness of their governance arrangements. Authorities are encouraged to meet the governance standards of the best.

The concept underpinning the Framework is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards, in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities; that there is sound and inclusive decision making; and that there is clear accountability for the use of those resources, in order to achieve desired outcomes for service users and communities.

The Framework draws on earlier work on governance in the public services which is briefly outlined in the appendix to this guidance note.

It is intended that the Framework and the addendum are used by local authorities and partnerships including:

- county councils
- district councils
- most purpose authorities
- Greater London Authority and functional bodies
- city regions
- the Corporation of London
- fire authorities
- joint authorities (including passenger transport authorities, waste disposal authorities and combined fire authorities)
- police
- national park authorities.

PURPOSE OF THE GUIDANCE NOTE

The guidance note, which should be used in conjunction with the Framework and the addendum, is intended to assist authorities and partnerships in reviewing their governance arrangements. It will also help local government bodies in interpreting the overarching principles and terminology contained in the Framework in a way that is appropriate to their governing body, taking account of the legislative and constitutional arrangements that underpin them. However, this guidance note is not intended to be prescriptive in any way – all authorities are encouraged to consider carefully the content of the Framework and to use it in a way that best reflects their structure, type, functions and size.

This guidance note is aimed at authorities in England¹ and will be particularly useful for officers in those organisations.

TERMINOLOGY

Although the term ‘authorities’ is used throughout this guidance note, it should be taken also to cover partnerships and joint working arrangements that are in operation.

CONTEXT FOR THE UPDATE

Local government has been undergoing significant change. Much of this has been driven by the economic downturn and financial crisis, but the government has introduced new roles, opportunities and greater flexibility for authorities in the form of the provisions of the Localism Act and other key legislation. Over recent years local authorities have changed substantially the way in which they operate and undertake service provision. Public services are delivered through partnerships, collaboration and commissioning. Shared services and partnership boards have come into existence. New ways of working provide challenges for managing risk, ensuring transparency and demonstrating accountability.

DEVELOPMENTS SINCE THE LAUNCH OF THE FRAMEWORK

Transparency

The government is committed to increasing transparency across Whitehall and local authorities in order to make data more readily accessible to the citizen and to hold service providers to account. The Department for Communities and Local Government (DCLG) published *The Code of Recommended Practice for Local Authorities on Data Transparency* in September 2011. The Code is concerned with enshrining the principles of transparency by asking councils to follow three key principles when publishing data they hold:

- responding to public demand
- releasing data in open formats available for re-use

1. Excluding police, which are covered in a separate guidance note *Delivering Good Governance in Local Government: Guidance Note for Police* (2012) (see www.cipfa.org/Policy-and-Guidance/Reports).

- releasing data in a timely way.

A key part of making spending and data transparent is to get good quality information in the public domain in a standardised format while maintaining the security of that data.

Localism Act 2011

The Localism Act includes a number of provisions intended to give local government new freedoms and flexibility. Those of greatest relevance to this guidance note are summarised below:

- The ‘general power of competence’ gives local authorities the legal capacity to do anything an individual can that is not specifically prohibited. This new general power will give local authorities greater freedom to work in partnership and develop more innovative ways of providing services.
- The government has abolished the standards board regime but has introduced a new duty to promote and maintain high standards of conduct. Local authorities are required to draw up their own codes of conduct.
- The government is encouraging greater use of the directly elected mayor model of governance.
- The Act permits local authorities and their citizens to change their form of governance and to move away from an executive form of governance to a committee structure if they wish.

Health and Social Care Act 2012

Public health services are being restructured nationally and locally. At a national level, a new body – Public Health England – will oversee the public health system and will be accountable to the Secretary of State. At a local level, local authorities now have responsibilities for public health and are required to appoint a director of public health. While objectives will be set nationally for improving population health, local authorities will have the freedom to determine the means by which they are achieved.

Health and wellbeing boards will be created within local government with the following main functions:

- to assess the needs of the local population and lead the statutory joint strategic needs assessment
- to promote integration and partnership across areas, including through promoting joined-up commissioning plans across the NHS, social care and public health
- to support joint commissioning and pooled budget arrangements, where all parties agree this makes sense
- to undertake a scrutiny role in relation to major service redesign.

The Role of the Chief Financial Officer

In 2010, CIPFA issued the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government*. The statement supports CIPFA’s work to strengthen governance and financial management across the public services. It sets out five principles that define the core activities and behaviours that belong to the role of the chief financial officer and the

governance requirements needed to support them. The governance requirements should be reflected in an authority's local code of governance (see section 5).

The statement can be found at www.cipfa.org/Policy-and-Guidance/Reports/The-Role-of-the-Chief-Financial-Officer-in-Local-Government

The Role of the Head of Internal Audit

In 2010, CIPFA issued the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations*. The statement supports CIPFA's work to strengthen governance, risk management and internal audit across the public services. Its purpose is to clarify the role of the head of internal audit in public services and to raise its profile. CIPFA's statement sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. These requirements should be reflected in an authority's local code of governance (see section 5).

The statement can be found at www.cipfa.org/Policy-and-Guidance/Reports/-/media/Files/Publications/Reports/Role_of_the_HIA_NOVEMBERv5.pdf

Police Reform and Social Responsibility Act 2011

The Police Reform and Social Responsibility Act 2011 provides for directly elected police and crime commissioners to oversee local police forces, replacing police authorities, apart from in the City of London. For the Metropolitan Police area, the Mayor of London will be the police and crime commissioner. In addition, police and crime panels are being established to provide scrutiny of the police and crime commissioner's work for their force area.

The structure of governance in policing is covered in *Delivering Good Governance in Local Government: Guidance Note for Police*, published by CIPFA in 2012. The guidance can be found at www.cipfa.org/Policy-and-Guidance/Reports

Changes to Local Authority Governance Structures

Commissioning and partnerships with other local authorities and sectors are increasingly used as vehicles for delivering public services by local government. Local authorities often work with and through a range of organisations to deliver services. Partnerships and the cross-cutting issues with which they often deal create some special challenges for clear accountability and good governance. Each partner organisation may have its own governance and accountability structure, its own code of conduct and risk management arrangements. Demonstrating clear lines of accountability for stakeholders and customers may be difficult and needs to be carefully thought through by those involved, but is essential for good governance. The introduction of the government's 'big society' concept, which is encouraging public sector organisations and individuals to demonstrate new and innovative ways of delivering public services, brings further challenges in this area.

Shared services between organisations, including shared management teams and chief executives, can bring about substantial benefits, including cost savings for the parties involved. At the same time, there are distinct issues surrounding what happens if something goes wrong.

Using the guidance note

This guidance note is intended to help those supporting the political and officer leadership with establishing robust governance. It signposts component parts of the process and establishes a hierarchy of support.

This guidance note is aimed at assisting individual authorities in:

- considering how they might go about reviewing their governance arrangements
- developing governance arrangements for new structures such as shared services or health and wellbeing boards
- developing and updating their own local codes of governance
- demonstrating compliance with the principles of good governance.

It is suggested that, in using *Delivering Good Governance in Local Government: Framework*, authorities should nominate an individual or group of individuals within the authority who have appropriate knowledge, expertise and levels of seniority to:

- consider the extent to which the authority complies with the principles and elements of good governance set out in the Framework
- identify systems, processes and documentation that provide evidence of compliance
- identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified
- identify issues that have not been addressed in the authority and consider how they should be addressed
- identify the individuals who would be responsible for undertaking the actions that are required.

Section 3 looks at how the ‘governing body’ operates in local government.

Section 4 provides case studies and assessment questions for authority members and senior management to consider when:

- thinking about or implementing shared chief executive and management teams
- thinking about or implementing a committee structure for decision making.

Section 5 includes examples of the systems, processes and documents that might be cited by an authority as evidence of compliance with good practice. Authorities should not, however, feel constrained by either the format or the examples listed. Useful references and tools available to local authorities for self-assessment purposes are also listed. Authorities might find this a practical way of approaching the task.

The review must be reported on both within the authority, to the audit committee, or other appropriate member body, and externally with the published accounts of the authority. In doing this, the authority is looking to provide assurance:

- that its governance arrangements are adequate and working effectively in practice
- where the reviews of the governance arrangements have revealed circumstances which will impact on the authority achieving its objectives, that action is to be taken to ensure effective governance in future.

Section 6 looks at the following areas in more detail:

- annual governance statements
- the role of scrutiny
- fraud
- maintaining standards
- audit committees
- the governance of risk.

The ‘governing body’

INTRODUCTION

The governing body of an organisation has overall responsibility for directing and controlling that organisation. In local government the governing body is the full council or authority.

RESPONSIBILITIES

Elected members are collectively responsible for the governance of the council. The full council’s responsibilities include:

- agreeing the council’s constitution, comprising the key governance documents, including the executive arrangements and making major changes to reflect best practice
- agreeing the policy framework, including the community strategy and other key strategies
- agreeing the budget
- appointing the chief officers.

The Local Government Act 2000 (the 2000 Act) required councils with populations over 85,000 to adopt a mayor or leader and cabinet model. This meant decision-making power was placed with either a mayor directly elected by local residents or a council leader with a small ‘cabinet’ or ‘executive’ who had the power to make decisions both individually and collectively. Local authorities were also required to establish an overview and scrutiny function for members outside the cabinet through which they could question and challenge policy and performance of the executive and promote public debate.

The executive is responsible for:

- proposing the policy framework and key strategies
- proposing the budget
- implementing the policy framework and key strategies.

The chief executive advises councillors on policy and necessary procedures to drive the aims and objectives of the authority. The chief executive leads a management team consisting of senior managers. The chief financial officer, monitoring officer and other senior managers are responsible for advising the executive and scrutiny committees on legislative, financial and other policy considerations to achieve the aims and objectives of the authority. They are responsible for implementing councillors’ decisions and for service performance.

Through the Localism Act 2011, the government has allowed councils in England to change their governance arrangements. They may adopt a committee-based system for decision making as an alternative to the leadership/cabinet model or to a directly elected mayor model, should they wish, subject to a local referendum. The key elements include:

- Removal of current restrictions set out in the 2000 Act which require all councils in England with a population of 85,000 or more to operate executive arrangements – either the leader and cabinet or mayor and cabinet model.
- Councils in England will have the freedom to decide what governance model to adopt, including the committee system.
- Councils opting to operate the committee system will be able to decide how to discharge their functions, subject to the requirement to have certain statutory committees, such as a licensing committee.
- Councils choosing to operate the committee system will not be required to have an overview and scrutiny committee.

Fire authorities and joint authorities including waste disposal authorities, passenger transport authorities and combined fire and rescue authorities do not have directly elected members. Instead they have members appointed to the authority by the local councils. National park authorities also have members appointed by the Secretary of State. Members are responsible for setting policies and priorities and for the efficient and effective use of resources. These authorities do not have formal constitutions but rely on the schemes of delegation and operate a traditional local authority committee model. In the fire service, the fire brigade operates as the executive arm with the fire service providing scrutiny.

Assessment questions for authorities to consider and case studies

SHARED CHIEF EXECUTIVES AND MANAGEMENT TEAMS – QUESTIONS TO CONSIDER

The following section highlights questions that members and officers in an authority might consider when looking at, implementing and reviewing arrangements for sharing chief executives and management teams.

1. Good governance means focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- Has a common vision of the outcome of the shared service/shared chief executive arrangement been agreed by all parties?
- Has the vision been agreed between the authorities prior to working out the detail of the arrangement?
- Are the plans locally driven?
- Where authorities are under different political control, what particular challenges will this introduce and how might they be overcome?
- How can a clear and consistent political will be encouraged?
- Would it be helpful for the authorities to agree a set of joint priorities?
- What will be the outcome/benefits for the community of sharing the chief executive/other shared arrangements?
- How will the ongoing support of the members be secured? How will that support be used for promoting the initiative to staff and the wider public?

2. Good governance means members and officers working together to achieve a common purpose with clearly defined functions and roles

- Are there opportunities for the chief executives and leaders concerned to develop good relationships with other authorities with the potential to share services prior to more detailed discussions?
- How can equity between the authorities be assured so that the initiative is not perceived as a take-over or one council appearing too self-interested (for example, in relation to officer appointments).

- How can equity between the authorities be assured? How will fears be allayed that in the chief executive structure, one authority might be prioritised over another?
- Would it be helpful for members to be able to voice concerns/expectations on a regular basis, possibly with members from the other authority?
- How will the shared chief executive retain a connection with staff?
- How will fears by members about loss of officer support be allayed?
- How will the authorities ensure that the shared vision is followed through?

3. Good governance means promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- How can an atmosphere of mutual trust between the authorities and key players be encouraged? How can officer support assist here?
- Should authorities declare their non-negotiable issues/areas early on to help build trust?
- Do the authorities have similar cultures (management as well as organisational)? If not, would it be beneficial to consider how they might be brought closer together?
- How can member and officer personal interest in the initiative be encouraged?
- In the event of talks breaking down, how will the authorities ensure that they retain a good relationship in the future?
- In the case of shedding jobs, how will an open and honest process be established? The human resources function has a key role. Will any new skills be required?
- How will an open and honest recruitment process for the appointment of the shared chief executive be established?
- How will the authorities ensure that the process for appointing the shared chief executive is agreed early in proceedings?

4. Good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- Has political buy-in been secured at an early stage?
- Has there been an open debate between the senior officers and members of the authorities about the costs and benefits of the proposed scheme?
- Are the estimated savings on which the plans are based 'realistic'?
- Are the services between the authorities sufficiently aligned to enable synergies to work?
- Has the scheme secured the support of officers?
- How will a balanced process for officer appointments between the authorities in the case of a shared management team be managed?
- How can momentum be maintained during talks?
- How have the risks of the proposed approach been assessed? How will they be managed?

5. Good governance means developing the capacity and capability of members and officers to be effective

- Are the proposed arrangements sufficiently flexible so that they enable the authorities concerned to access the managerial expertise they require in-house on a sustainable basis?
- How will expectations be managed about what can be delivered in relation to shared chief executive arrangements and other shared services? Has the use of new technologies such as teleconferencing that might overcome logistics problems been fully considered?
- Will the shared chief executive have access to appropriate resources – such as a personal assistant at each local authority – to ensure that he or she can work effectively?
- What arrangements will be put in place to evaluate the success of the shared arrangements and to identify areas for improvement?

6. Good governance means engaging with local people and other stakeholders to ensure robust local public accountability

- Do the authorities have an agreed media management policy in place for communicating with the public?
- How will successes be communicated to the public?
- What communication channels will need to be established to reach all levels of the authority? How will they be enacted to ensure updates on a regular basis, for example weekly bulletins or regular emails communicating successes and future plans? These can be used to build relations with new members/officers.

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Crossing the Border: Research into Shared Chief Executives (Local Government Association, 2012)

Shared Chief Executives and Joint Management: A Model for the Future? (Improvement and Development Agency, 2009)

Shared Chief Executives: The Lessons (Improvement and Development Agency, 2008)

COMMITTEE STRUCTURES FOR MODERN LOCAL GOVERNMENT – QUESTIONS TO CONSIDER

The following section highlights questions that members and officers in an authority might consider when looking at, implementing and reviewing new committee structures.

1. Good governance means focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- How will the committee structure ensure a strategic approach to decision making and policy development?
- How will the authority ensure that the committee structure is developed in accordance with best practice?
- How will issues be prioritised between committees?

- How will the authority ensure that committees only consider those strategic matters where they can add value?
- How will the authority ensure that committees do not focus too much on operational issues?

2. Good governance means members and officers working together to achieve a common purpose with clearly defined functions and roles

- How will the design of the committee structure ensure that decisions can be made in a timely manner?
- Will the structure enable members to be directly involved in developing proposals?
- How will the authority ensure that the committees can work effectively and that they have sufficient time for discussion and debate in making decisions?
- Should some decisions be delegated to officers to enable the work of the authority to be carried out effectively?

3. Good governance means promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- Has the authority ensured that the reasons behind the proposed change to its governance structure are robust and do not signify a problem with its culture which should be resolved differently?
- How will the authority encourage members to work together to enable effective decision making within a political setting?

4. Good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- Have the reasons for changing the governance structure of the authority been clearly articulated?
- Have the assumptions supporting the proposed change been adequately tested?
- Has the impact of a change to the decision-making processes on partnership working been assessed?
- How will the authority ensure that there are effective arrangements for managing risk and driving improvements?
- How will the authority ensure that the work of its committees can be programmed to achieve timely decision making?
- How will issues cutting across a number of committees be flagged up appropriately to ensure that decisions are made on a timely basis?
- How will the authority ensure that committees do not operate in 'silos'?
- How will the authority ensure effective scrutiny and that it remains independent, appropriately resourced and externally focused?
- How will the authority ensure that the new structure does not adversely affect or complicate partnership decisions?
- Will the authority need to consider delegated decision making under certain circumstances, for example to enable partnership-based decisions to be made?

5. Good governance means developing the capacity and capability of members and officers to be effective

- How will the authority ensure that appropriate information is shared with members to enable them to carry out their new roles?
- How will the authority ensure that committees act consistently in dealing with issues that cross several committees?
- How will members be kept up to date with appropriate issues in relation to the decisions they are making?

6. Good governance means engaging with local people and other stakeholders to ensure robust local public accountability

- Has the local community been made aware of the proposed changes and how changes to the decision-making structures will affect them?
- How will partnership decision-making structures be integrated into the committee arrangements to ensure that they can be held to account effectively?
- How will the authority ensure that the public has the opportunity to influence decisions in the new structure?
- How will the authority ensure that members can maximise their opportunities to engage with their communities?

Bibliography

Changing Governance Arrangements (Policy Briefing 4) (Centre for Public Scrutiny, 2010)

Musical Chairs: Practical Issues for Local Authorities Moving to a Committee System (Centre for Public Scrutiny, 2012)

CASE STUDIES

Several local authorities have supplied us with material on how they have tackled specific governance issues. These are illustrated below.

Joint Committee Governance Arrangements

The joint committee had always performed well, requiring little involvement from the lead authority, and had returned substantial annual dividends to member authorities. Then things started to go very wrong – there were significant operational failures, excessive spending and falling revenues, wiping out almost all the profits. Governance arrangements were in place for the historically stable organisation but it became rapidly apparent that they were not sufficient in a dynamically changing environment with ‘rogue’ factors at work. Stopping the decline and returning the organisation to good performance and profitability took an enormous amount of time, cost and effort, with massive reputational and personal risk for some officers.

The governance arrangements in place and written into the constitution covered:

- the purpose and objectives of the organisation
- the role and responsibilities of the director

- the role and responsibilities of the statutory officers from the lead authority
- the delegations and authority of the director
- financial and contract procedure rules.

Arrangements were also in place in relation to lead authority control and oversight of banking arrangements. This proved critical to the early identification by the lead authority of problems arising (through observation of cash flows) when the organisation's reporting to members was inaccurate and misleading.

Problems in applying good governance were as follows:

- Arrangements were ignored by key people. Decisions were being made but not transparently reported.
- The size of the joint committee was an issue. Its membership covered a wide cross-section of 'owning' authorities but there was no relationship (local or political) other than being present at the same committee meetings three or four times a year.
- The members had little understanding of the role of the lead authority so when advice was given it was repeatedly ignored.
- The director was not line managed by any authority so there was an inability to direct a change in behaviour or approach.
- The role and purpose of the organisation had become blurred and misunderstood over time and was potentially in conflict with the local authorities that 'owned' it.
- In the absence of an audit committee, governance concerns were not independently and closely monitored.
- Whistleblowing arrangements were ineffective as they were not sufficiently independent.
- The activity was not actually unlawful, making it difficult for the lead authority to 'force' action to be taken.
- Member decision making was technically correct in governance terms (formal reports from the lead authority clearly stated the problems but members chose not to agree recommendations).

Improvements made to avoid a recurrence of problems (once action had eventually been taken to resolve them) included the following:

- Member training – their role, the role of the organisation and the role of the statutory officers.
- A strategic officer group was established chaired by the lead authority and consisting of senior officers from all the member authorities, which now meets in advance of each committee meeting to consider the implications of the committee's business and to hold the director to account.
- A small and focused audit committee has been established.
- A whistleblowing hotline and website through to the lead authority has been set up. It is therefore independent of the organisation's management.

- The constitution, delegations and procedure rules have been reviewed and updated by officers of all member authorities, ensuring everyone is aware of them and that members are fully briefed.

Integration of Services – Leeds City Council

Leeds City Council will receive new public health functions from April 2013. Services, staff and contracts will transfer to the authority from local and national NHS bodies. The authority must integrate these new functions at both strategic and delivery level.

The council will also be required to appoint a director of public health, and a new committee – the health and wellbeing board – which will supersede its current health partnership arrangements within its local strategic partnership.

The challenge is to ensure that the transition process and the new functions are carried out in accordance with the authority's governance and decision-making frameworks. The new arrangements also require a review of the authority's decision-making framework so that it is fit for purpose.

The key ways in which this will be done, by addressing the six principles contained in the council's code of corporate governance,² are as follows.

Focusing on the purpose of the council and community needs

The new functions will be carried out with a focus on the vision and priorities relating to health set out in the city priority plan (as well as the statutory joint health and wellbeing strategy in due course).

Creating an office of the director of public health, and adopting a 'hub and spoke' public health operating model within the authority (with staff working in different localities and across all directorates), which will embed the new functions into all of the authority's activities.

Having clear responsibilities and arrangements for accountability

The leader has appointed an executive member for health and wellbeing to provide political leadership and accountability.

The director of public health is to be directly accountable to the chief executive for the exercise of the authority's public health functions. The director of public health is also a member of the corporate leadership team, able to influence decisions across the range of the authority's business.

The officer delegation scheme will be reviewed to reflect the statutory functions of the director of public health.

Good conduct and behaviour

The implications of the authority's new members' code of conduct for officers and representatives appointed to the health and wellbeing board will be reviewed.

2. Modelled on the CIPFA/SOLACE Framework principles of good governance.

Taking informed and transparent decisions which are subject to effective scrutiny and risk management

A Leeds public health transition plan was jointly agreed by the NHS and the authority, and is subject to an NHS assurance process.

A public health transition programme board chaired by the director of public health, with council and NHS representation, oversees implementation of the transition plan. The board advises relevant decision makers within the council and the NHS on transfer of functions, staff and commissioning contracts, and reports progress to the authority's executive board.

The governance arrangements of the transition board include the management of risks associated with the transition.

The director of public health has responsibility for intelligence and information to support and advise members and officers.

Health scrutiny arrangements will be reviewed.

Developing the capacity and capability of members and officers to be effective

A shadow health and wellbeing board is carrying out an organisational development programme during this shadow year to develop new ways of working.

The ongoing health and wellbeing development programme for councillors has included specific training on the transition of public health functions.

The director of public health has responsibility for public health workforce development.

Engaging with local people and other stakeholders

Communication and engagement is a distinct workstream under the transition board. A comprehensive communication and engagement plan has been submitted to the strategic health authority.

Integration of Services – Staffordshire County Council

The UK's largest integration of local authority and NHS care services went live from 1 April 2012, when the Staffordshire and Stoke-on-Trent Partnership Trust became responsible for the majority of adult social and community healthcare within Staffordshire and all community healthcare in Stoke-on-Trent, delivering everything from physiotherapy to day care services.

The integration saw almost 1,000 social care staff and a budget of £153 million transfer from the county council to the new organisation.

The detailed arrangements to manage the service integration are contained in the section 75 legal agreement, made pursuant to section 75 of the NHS Act 2006 that will manage the contractual and governance arrangements between the county council and the trust.

Ensuring effective governance of the section 75 agreement is key to safeguard both parties' interests and accountabilities with regard to the delivery and the commissioning of integrated services. A governance framework has been agreed and covers:

- political governance as well as day-to-day operational governance
- the need to establish effective integrated commissioning arrangements with the newly formed clinical commissioning groups
- performance management of the transferred services
- transformation to new integrated models of delivery
- a review and refresh of the governance arrangements so that the partnership arrangements which are the subject of the section 75 partnership agreement are organic and reflect changes in the commissioning landscape.

Following on from the above, the following summary details the three layers of governance in operation, including broad terms of reference:

- cabinet to trust board
- executive group
- partnership arrangements review group (PARG).

Partnership arrangements

Governance Arrangements

Cabinet to Trust Board

Frequency	Quarterly
Broad Terms of Reference:	<ul style="list-style-type: none"> Setting the strategic direction for the Partnership Arrangements; Monitoring the strategic impact of integration; Providing overall assurance on delivery; To be the ultimate internal dispute resolution forum; Sign off of strategic plans; Change proposals that could have a significant impact on the Council and/or Partnership Trust, not resolved by the Executive Group.
Representatives	Cabinet and Trust Board nominees Also to attend: Respective Chief Executives and any advisor deemed necessary



Executive Group

Frequency	Monthly
Broad Terms of Reference:	<ul style="list-style-type: none"> To ensure that outcomes for both Partners are delivered within Budget and in line with the requirements of the Partnership Arrangements. To ensure delivery of the Aims and Outcomes, in particular integration and transformation of Services. To make recommendations to the Cabinet to Trust Board Group. To direct the establishment and activities of Project Teams. To approve and review the Transformation Plan 2012 to 2015. To be appraised of legislative and policy requirements etc which impact on, or are likely to impact on, the operation of the Partnership Arrangements and to report such as required to the Cabinet to Trust Board. As part of the Transformation Plan in particular to approve and monitor a workforce transformation and organisation development plan. Implement and monitor the Performance Management and Monitoring Framework, by exception, taking action within the remit of the Partnership Arrangements to deal with poor performance and to agree changes to same as required to reflect legislative and policy changes and in line with delegated authority. To act as a formal resolution panel for Disputes referred from Authorised Supervisory Officers. Ensure that Executive Group members are effectively supported to deliver these Terms of Reference and the requirements of the Partnership Arrangements. Consider any change proposals which are not resolved by the PARG. Subject to the general requirements below, members may undertake anything reasonably incidental to the above.
Representatives	Senior Leadership Team nominees and any advisor deemed necessary

Working Groups created by Executive Board as required



Partnership Arrangements Review Group (PARG)

Frequency	Monthly
Broad Terms of Reference:	<ul style="list-style-type: none"> Review Performance (including contract monitoring and financial performance). Agrees changes to the Performance Indicators. Manages the preparation of detailed implementation plans together with ensuring appropriate impact assessments are completed which analyse the impact of the proposed Transformation Plan on this Agreement. Manages Change Control within the Agreement; Reviews the Change log, and reports to the Executive Group both single changes, or changes it considers cumulatively, are significant.
Representatives	To be determined by the Executive Group

Project Teams created by PARG as required

Employee Fraud

This case study was provided by the National Fraud Authority and first appeared on TISonline. For further information, please see www.tisonline.net/aboutus.asp

Between December 2010 and October 2011, a casual employee of a leisure centre claimed over £23,000 in salary in respect of hours worked. The employee, however, had not worked at all during the periods claimed and had forged the signature of the manager to enable the claims to be processed. The council was able to prevent the last two monthly claims submitted, amounting to approximately £6,000, from being paid, leaving approximately £17,000 overpaid.

The employee subsequently pleaded guilty in February 2012 and was sentenced to 12 months' community order under supervision by the probation service, and also 200 hours' unpaid community service.

A number of control issues were identified by internal audit during their investigation. These are recorded below with details of the action taken by management to minimise the risk of fraud in relation to salary payments:

- Signing in and out sheets were not being utilised to enable verification of the hours that staff were actually in attendance. Management have issued directives to all centres/pools to state that effective signing in arrangements must be in place.
- Managers failed to ensure that all hours claimed on the form were valid prior to signing; also, following approval of the form, blank lines were not cancelled to prevent additional items being added. Managers have now been instructed to ensure that they fully check all claims to supporting data to confirm the accuracy/validity of the claim.
- Managers failed to ensure that the timesheets were valid/accurately completed prior to forwarding to payroll for processing. Queries raised by payroll on a regular basis related to:
 - approval of claims where hours were overlapping
 - duplication of claims made
 - hours claimed as overtime and acting up at the same time
 - incorrect hours claimed
 - excessive shifts being claimed/approved, ie 14.5 hours in one day
 - incorrect working patterns.
- Managers have been instructed to verify the accuracy of the information included on the claim forms. This issue should be kept under review by senior managers to ensure that the reasons for any future errors are identified and action taken to prevent their reoccurrence.
- Managers failed to retain claim forms once authorised, prior to submitting them directly to payroll. Claims were being handed back to employees, who then took them to payroll and submitted them for payment. This, combined with the lack of check and cancellation of blank lines as detailed above, allowed the casual employee to amend/add hours that had not been worked. Instructions have now been issued to ensure that claim forms must be retained by the manager once authorised and submitted by them directly to payroll for processing.
- Queries raised by HR relating to staff working more than 48 hours per week were not followed up. Managers stated that this was because they were of the opinion that no

members of staff were working in excess of the maximum allowed from the rotas held. However, this was because the casual employee was claiming for hours not worked. If managers had investigated the reason why HR was querying adherence to the working standards directives requirements, then the fraudulent submission of claims would have been identified earlier. Managers should ensure that where queries are raised by Payroll/HR in future, they are considered fully and action taken to resolve the query in a timely manner.

- Effective budget monitoring was not in place. The issue of budget overspend was raised by the corporate finance team as the total budget for casual staff had been exceeded by £38,000 well before the year end. Managers are now aware that budget monitoring should be undertaken on a regular basis to ensure that anomalies are identified at an early stage.

The council also has a process in place whereby casual employees are terminated from its payroll following a period of six months' inactivity, ie they have not been called upon to work. There are justifiable reasons as to why six months is considered to be an acceptable timeframe. However, further work is required to understand how effective this process is with regards to the risk of fraud occurring. For example, if HR informs management of inactivity, then they will omit a casual employee who is fraudulently claiming. Compensatory controls such as budget monitoring should detect overpayments but this may not necessarily be immediately.

The council is currently in the process of improving automation within its payroll function, which should reduce the risk of fraud. Future salary claims by casual employees will need to be submitted electronically via the payroll system to their managers, who will be required to certify these electronically as well, thereby reducing the risk of forged claims.

Change Programmes – Bath and North East Somerset

Bath and North East Somerset Council is adapting to changes in government legislation while facing an aging population and increased unemployment. In tackling its challenges, the council is making significant efforts through its change programme in order to make financial efficiencies, work closely with partners and improve the quality of services through investing in its staff and technology.

The council has published a document demonstrating how it is achieving its goals. Two extracts are reproduced, showing how the council is working with its community and changing the way services are delivered. The full document can be found at www.bathnes.gov.uk/sites/default/files/sitedocuments/Your-Council/ChangeBrochure2014.pdf

New approaches to working with the community

We are becoming a more strategic, commissioning organisation. This means our main focus will be on what our communities want and need, and we will work together to decide who is best placed to deliver the right services.

We are looking at what resources and capabilities the community already has and how the Council can help make things happen to benefit the community.

Some of the services we now deliver will be delivered by other organisations on our behalf.

As a council we will support service delivery where it is most effective for us to do so, particularly where there are vulnerable people or communities at risk.

Some of the services we now deliver will be delivered by other organisations on our behalf. Working with our communities and partners we are considering who is best placed to deliver services. Sometimes it might be the community itself, with support from the Council; sometimes it might be the Council and sometimes it might be another organisation.

We need to continue to ensure that services are value for money and in the best interests of the public.



What is Community-led Commissioning?

It is about changing the way that public services are provided locally.

Analyse: It starts by understanding what people want and need locally through effective research and intelligence.

Plan: We can then be clear about what outcomes we need to bring about for local people. These have to be prioritised (we cannot provide for every public need).

Secure services: The next stage is to find the provider of those services to bring about these outcomes – in other words, procure services. Sometimes the Council will be the best organisation to deliver, sometimes it will be better done through others. Increasingly we need to see the communities themselves as the best people to help provide services; this involves effective community engagement.

Review: The final stage is to monitor how effective all the above is at achieving the right outcomes for people. Which of course links back in to the initial stage of research and intelligence, making strategic commissioning a cycle that ultimately ensures people get the outcomes they need.

Listen and Engage: Throughout all of the stages its crucial that we listen to our communities' needs and ideas and engage them actively in the outcomes.

The changing shape of local government – giving more control to communities and organisations like schools (eg as academies) – makes this work all the more important.

Bath & West Community Energy

- case study:

The Council has supported the establishment of Bath & West Community Energy (BWCE), a new social enterprise run by energy experts and community activists.

The new community company is supplying free solar energy panels for local schools and community buildings, and is also running a public share offer to raise £400,000.

This will be reinvested into local renewable energy technology – at first solar panels – attracting revenues from

energy sales and Government incentives. The recipient of the solar panel receives the electricity generated by their panels for free.

A portion of any financial surpluses will be reinvested into a 'Community Fund' for further low carbon projects.

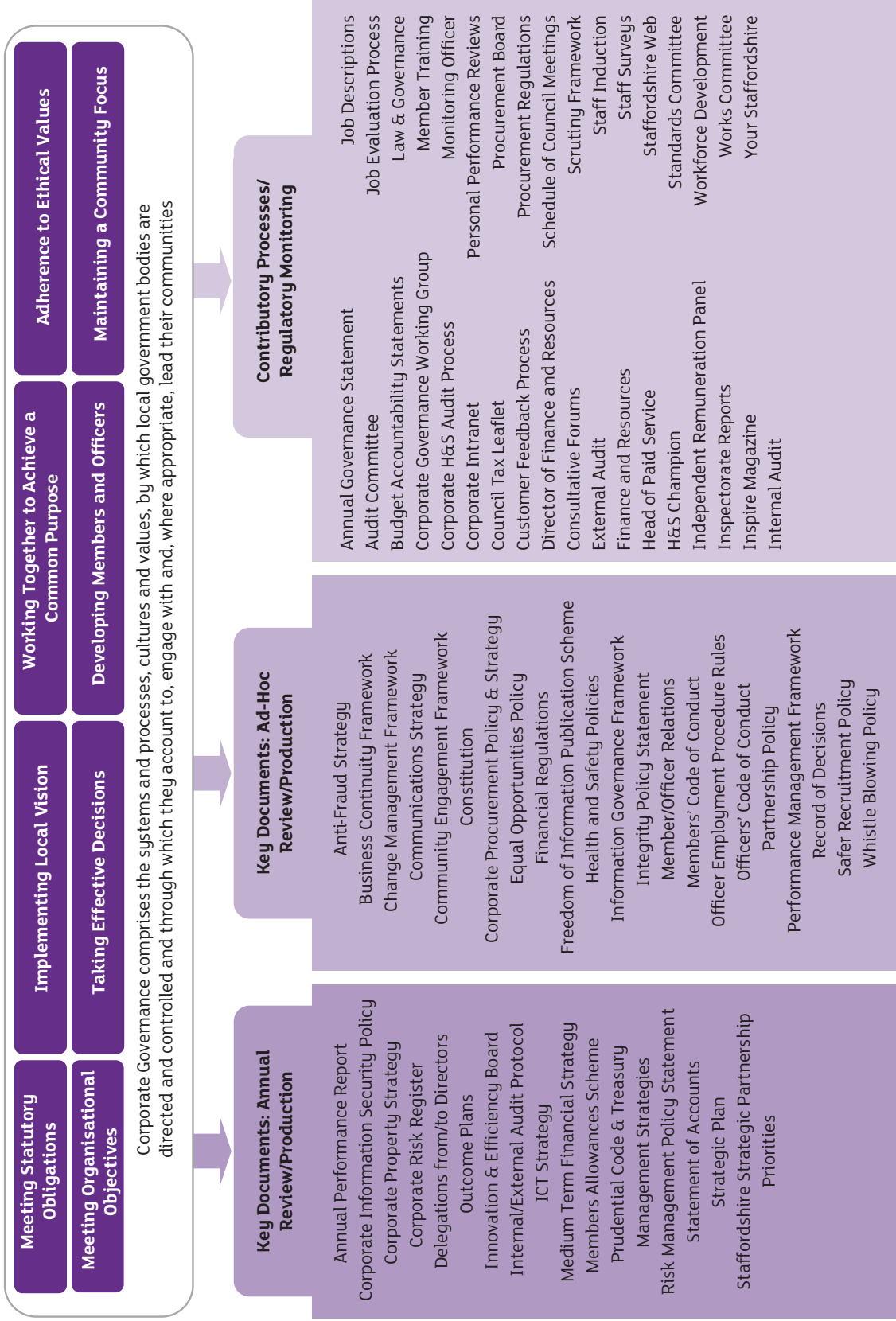
The Council intends to enter into a formal co-operation agreement with BWCE. There is the potential for BWCE to install solar electric panels on local schools and work with the Council to help achieve its renewable electricity targets.

[Link to www.bwce.coop](http://www.bwce.coop)

Other Examples of Good Practice

- The London Borough of Havering currently has an officer governance group which meets quarterly. It is chaired by the section 151 officer and attended by the monitoring officer and other members of the corporate management team, with each directorate of the council represented. It provides the authority with a useful group which helps in putting action plans into place and driving governance in the right direction.
- Staffordshire County Council draws together on a single sheet all its systems, processes and documents that contribute to the authority's governance. The extent to which they are in place and effective is considered as part of the authority's annual review. The document is reproduced opposite.

Staffordshire County Council Corporate Governance Framework Principles, Statutory Obligations and Organisational Objectives



Schedule to assist in putting the principles into practice

The following tables show:

- how the principles of good governance should be reflected
- the requirements that need to be reflected in a local code
- examples of systems, processes and documentation that may be used to demonstrate compliance (for illustration purposes only)
- self-assessment tools and useful references.

It should be stressed that authorities will need to assess how far their processes and documentation meet the criteria suggested, otherwise the exercise will become a box-ticking process rather than a qualitative exercise. One way to make the exercise more challenging would be to score the authority's arrangements on a scale of 0 to 10, where 10 represents very best practice. This would require the provision of qualitative and/or quantitative data on achievement against the requirements the local code should reflect. This could be done by adding two extra columns – one for a self-assessment score and one to add plans for improvement.

1. Core principle: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
<p>1 Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users</p>	<ul style="list-style-type: none"> ■ Develop and promote the authority's purpose and vision 	<ul style="list-style-type: none"> ■ Vision used as a basis for corporate and service planning ■ Community engagement and involvement ■ Communication strategy in respect of corporate objectives has been developed, approved and implemented
	<ul style="list-style-type: none"> ■ Review on a regular basis the authority's vision for the local area and its implications for the authority's governance arrangements 	<p>Record of the review of:</p> <ul style="list-style-type: none"> ■ the authority's vision ■ the governance code
	<ul style="list-style-type: none"> ■ Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners 	<ul style="list-style-type: none"> ■ Partnership protocol including an agreement on the role and scope of each partner's contribution ■ Strategic partnership priorities ■ Partnership arrangements
	<ul style="list-style-type: none"> ■ Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance 	<ul style="list-style-type: none"> ■ Formal annual report which includes key points raised by external scrutineers and service users' feedback on service delivery ■ Annual financial statements
<p>2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</p>	<ul style="list-style-type: none"> ■ Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available 	<ul style="list-style-type: none"> ■ An agreed set of quality standard measures for each service element and included in service plans ■ Evidence that views of service users and non-users have been received ■ Evidence that views have been taken into account in service planning and delivery

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ Put in place effective arrangements to identify and deal with failure in service delivery 	<ul style="list-style-type: none"> ■ Regular reports on the progress of service delivery ■ Performance trends are established and reported upon ■ Formal complaints policy and procedures exist and are operating effectively ■ Evidence that complaints have informed positive service improvement
<p>3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</p>	<ul style="list-style-type: none"> ■ Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively ■ Measure the environmental impact of policies, plans and decisions 	<ul style="list-style-type: none"> ■ Clear corporate requirement and instruction on how to measure VFM ■ Corporate procurement policy and strategy ■ Comparison of information on the authority's economy, efficiency and effectiveness of services with that provided by similar organisations ■ Evidence that the results are reflected in the authority's performance plans and in reviewing the work of the authority

2. Core principle: Members and officers working together to achieve a common purpose with clearly defined functions and roles

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
<p>1 Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function</p>	<ul style="list-style-type: none"> ■ Set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice ■ Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and senior officers 	<ul style="list-style-type: none"> ■ Published job descriptions for the leader of the authority and chief executive ■ Member/officer protocol ■ Constitution
<p>2 Ensuring that a constructive working relationship exists between elected members and officers and that the responsibilities of authority members and officers are carried out to a high standard</p>	<ul style="list-style-type: none"> ■ Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority taking account of relevant legislation and ensure that it is monitored and updated when required ■ Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management ■ Develop protocols to ensure that the leader and chief executive (or equivalent) negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained 	<ul style="list-style-type: none"> ■ Scheme of delegation reviewed at least annually in the light of legal and organisational changes ■ Standing orders and financial regulations which are reviewed on a regular basis ■ Statutory provisions ■ Conditions of employment ■ Up-to-date job description/specification ■ Appraisal arrangements ■ Robust performance management system ■ Job descriptions ■ New chief executive and leader pairing consider how best to establish and maintain effective communication

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ Make a senior officer (the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control 	<ul style="list-style-type: none"> ■ Section 151 responsibilities ■ Statutory provision ■ Up-to-date job description/ specification ■ The authority has complied with the <i>CIPFA Statement on the Role of the Chief Financial Officer in Local Government</i> and has reported on it accordingly in its annual governance statement ■ The authority has complied with the <i>CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations</i> and has reported on it accordingly in its annual governance statement
3	<p>Ensuring relationships between the authority, its partners and the public are clear so that each know that to expect of the other</p>	<ul style="list-style-type: none"> ■ Make a senior officer (usually the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with ■ Develop protocols to ensure effective communication between members and officers in their respective roles ■ Member/officer protocol

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel 	<ul style="list-style-type: none"> ■ Scheme for member remuneration and allowances ■ Robust pay and conditions policies and practices for employees ■ Structured pay scales reflecting competence ■ Established process for grading and appeals procedures
	<ul style="list-style-type: none"> ■ Ensure that effective mechanisms exist to monitor service delivery 	<ul style="list-style-type: none"> ■ Key performance indicators have been established and approved for each service element and included in the service plan and are reported upon regularly ■ Reports include detailed performance results and highlight areas where corrective action is necessary
	<ul style="list-style-type: none"> ■ Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated 	<ul style="list-style-type: none"> ■ Business and financial planning processes established to deliver strategic objectives ■ Protocols for consultation ■ Statutory guidance is followed

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ When working in partnership, ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority ■ Ensure that there is clarity about the legal status of the partnership ■ Ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions 	<p>Protocols for partnership working mean that for each partnership there is:</p> <ul style="list-style-type: none"> ■ a clear statement of the partnership principles and objectives ■ clarity of each partner's role within the partnership ■ definition of roles of partnership board members ■ line management responsibilities for staff who support the partnership ■ a statement of funding sources for joint projects and clear accountability for proper financial administration ■ a protocol for dispute resolution within the partnership

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CIPFA Statement on the Role of the Chief Financial Officer in Local Government (CIPFA, 2010)

CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (CIPFA, 2010)

Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/SOLACE Code of Corporate Governance in Local Authorities to their Management of LGPS Funds (CIPFA, 2009)

SOLACE Statement on the Role of the Chief Executive (SOLACE, 2011)

'Working through partnerships briefing', on the Audit Commission website – www.audit-commission.gov.uk/nationalstudies/localgov/briefings/Pages/workingthroughpartnerships.aspx

The Association of Council Secretaries and Solicitors has a range of guidance – see www.acses.org.uk

3. Core principle: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
<p>1 Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</p>	<ul style="list-style-type: none"> ■ Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect <hr/> ■ Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols <hr/> ■ Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice 	<ul style="list-style-type: none"> ■ Codes of conduct, annual governance statement ■ Conduct at meetings <hr/> ■ Members'/officers' code of conduct which acknowledges professional bodies' codes of conduct ■ Performance appraisal ■ Complaints procedures ■ Anti-fraud and anti-corruption policies are up to date and working effectively ■ Induction for new members and staff on standard of behaviour expected <hr/> ■ Standing orders, financial regulations and codes of conduct, all reviewed and updated on a regular basis ■ Register of interests (members and staff) ■ Provision of ethical awareness training ■ Procedures for dealing with conflicts of interest ■ Up-to-date register of gifts and hospitality

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
2 Ensuring that organisational values are put into practice and are effective	<ul style="list-style-type: none"> ■ Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicate these with members, staff, the community and partners 	<ul style="list-style-type: none"> ■ Codes of conduct ■ Evidence of communicating shared values with members, staff, the community and partners ■ Whistleblowing arrangements are in place and protect individuals raising concerns
	<ul style="list-style-type: none"> ■ Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice 	<ul style="list-style-type: none"> ■ Codes of conduct
	<ul style="list-style-type: none"> ■ Develop and maintain an effective standards committee 	<ul style="list-style-type: none"> ■ Terms of reference ■ Regular reporting to full council ■ Examples of responding to complaints about behaviour
	<ul style="list-style-type: none"> ■ Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority 	<ul style="list-style-type: none"> ■ Decision-making practices ■ Evidence that shared values have guided the decision making
	<ul style="list-style-type: none"> ■ In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively 	<ul style="list-style-type: none"> ■ Protocols for partnership working ■ Evidence of agreed values

Bibliography

The Annual Governance Statement: Meeting the Requirements of the Accounts and Audit Regulations 2003, incorporating Accounts and Audit (Amendment) (England) Regulations 2006 – Rough Guide for Practitioners (CIPFA Finance Advisory Network, 2007)³

‘Illustrative text for local code of conduct’, on the DCLG website –

www.communities.gov.uk/publications/localgovernment/localcodeconduct

A template for a code of conduct and guidance are available on the LGA website –

www.local.gov.uk/web/guest/media-centre/-/journal_content/56/10171/3376577/NEWS-TEMPLATE

3. Although this dates back to the Accounts and Audit (Amendment) (England) Regulations 2006, authorities may still find it useful in compiling their annual governance statement.

4. Core principle: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
<p>1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</p>	<ul style="list-style-type: none"> ■ Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisations for which it is responsible 	<ul style="list-style-type: none"> ■ The role of and responsibility for scrutiny have been established ■ Agenda and minutes of scrutiny meetings ■ Evidence of improvements to proposals as a result of scrutiny ■ An effective internal audit function is resourced and maintained
	<ul style="list-style-type: none"> ■ Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based 	<ul style="list-style-type: none"> ■ Decision-making protocols ■ Record of decisions and supporting materials ■ Record of professional advice in reaching decisions
	<ul style="list-style-type: none"> ■ Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice 	<ul style="list-style-type: none"> ■ Members' and officers' code of conduct which refers to a requirement to declare interests ■ Minutes showing declarations of interest were sought and appropriate declarations made
	<ul style="list-style-type: none"> ■ Develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee 	<ul style="list-style-type: none"> ■ Terms of reference ■ Membership ■ Training for committee members

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints 	<ul style="list-style-type: none"> ■ Complaints procedure ■ Evidence of changes/improvements as a result of complaints received and acted upon
<p>2 Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs</p>	<ul style="list-style-type: none"> ■ Ensure that those making decisions, whether for the authority or the partnership, are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical and financial issues and their implications ■ Ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately 	<ul style="list-style-type: none"> ■ Discussion between members and officers on the information needs of members to support decision making ■ Agreement on the information that will be provided and timescales ■ Calendar of dates for submitting, publishing and distributing timely reports that are adhered to ■ The authority complies with the <i>CIPFA Statement on the Role of the Chief Financial Officer in Local Government</i> and reports accordingly in its annual governance statement ■ Record of decision making and supporting materials ■ Meeting reports show details of advice given
<p>3 Ensuring that an effective risk management system is in place</p>	<ul style="list-style-type: none"> ■ Ensure that risk management is embedded into the culture of the authority, with members and managers at all levels recognising that risk management is part of their jobs 	<ul style="list-style-type: none"> ■ Risk management protocol ■ Risk management strategy/policy has been formally approved and adopted and is reviewed and updated on a regular basis ■ Financial standards and regulations ■ Counter-fraud arrangements are in place and operating effectively

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ Ensure that effective arrangements for whistleblowing are in place to which officers, staff and all those contracting with or appointed by the authority have access 	<ul style="list-style-type: none"> ■ A whistleblowing policy exists and is reviewed on a regular basis ■ The policy has been made available to members of the public, employees, partners and contractors
<p>4 Using their legal powers to the full benefit of the citizens and communities in their area</p>	<ul style="list-style-type: none"> ■ Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine, but also strive to utilise their powers to the full benefit of their communities ■ Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law ■ Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into their procedures and decision-making processes 	<ul style="list-style-type: none"> ■ Constitution ■ Monitoring officer provisions ■ Statutory provision ■ Record of legal advice provided by officers ■ Monitoring officer provisions ■ Job description/specification ■ Statutory provisions

Bibliography

Core Competencies in Public Service Risk Management (Alarm/CFA, 2011)

Risk Governance (CIPFA Better Governance Forum, 2011)

See the scrutiny bibliography (page 63)

See the fraud bibliography (page 64)

5. Core principle: Developing the capacity and capability of members and officers to be effective

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
<p>1 Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles</p>	<ul style="list-style-type: none"> ■ Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis 	<ul style="list-style-type: none"> ■ Training and development plan ■ Induction programme ■ Access to update courses/ information/briefings on new legislation
	<ul style="list-style-type: none"> ■ Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority 	<ul style="list-style-type: none"> ■ Job description/personal specifications ■ Membership of the top management team
<p>2 Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group</p>	<ul style="list-style-type: none"> ■ Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively 	<ul style="list-style-type: none"> ■ Training and development plan ■ Performance reviews of officers and members
	<ul style="list-style-type: none"> ■ Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed 	<ul style="list-style-type: none"> ■ Training and development plan reflects requirements of a modern councillor including: <ul style="list-style-type: none"> – the ability to scrutinise and challenge – the ability to recognise when outside advice is required – advice on how to act as an ambassador for the community – leadership and influencing skills

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ Ensure that arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan, which might for example aim to address any training or development needs 	<ul style="list-style-type: none"> ■ Performance management system ■ Staff development plans linked to staff appraisals
<p>3 Encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal</p>	<ul style="list-style-type: none"> ■ Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority 	<ul style="list-style-type: none"> ■ Strategic partnership frameworks ■ Stakeholders' forums' terms of reference ■ Area forums' roles and responsibilities ■ Residents' panel structure
	<ul style="list-style-type: none"> ■ Ensure that career structures are in place for members and officers to encourage participation and development. 	<ul style="list-style-type: none"> ■ Succession planning

Bibliography

Shared Services: Where Now? A Guide to Public Sector Implementation (CIPFA, 2008)

6. Core principle: Engaging with local people and other stakeholders to ensure robust public accountability

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
<p>1 Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships</p>	<ul style="list-style-type: none"> ■ Make clear to themselves, all staff and the community to whom they are accountable and for what 	<ul style="list-style-type: none"> ■ Community strategy
	<ul style="list-style-type: none"> ■ Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required 	<ul style="list-style-type: none"> ■ Establish a database of stakeholders with whom the authority should engage and for what purpose and a record of an assessment of the effectiveness of any changes
	<ul style="list-style-type: none"> ■ Produce an annual report on the activity of the scrutiny function 	<ul style="list-style-type: none"> ■ Annual report
<p>2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning</p>	<ul style="list-style-type: none"> ■ Ensure clear channels of communication are in place with all sections of the community and other stakeholders, including monitoring arrangements, and ensure that they operate effectively 	<ul style="list-style-type: none"> ■ Community strategy ■ Citizen survey
	<ul style="list-style-type: none"> ■ Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands 	<ul style="list-style-type: none"> ■ Record of public consultations ■ Processes for dealing with competing demands within the community

Supporting principles	The local code should reflect the requirement of local authorities to:	Examples of evidence
	<ul style="list-style-type: none"> ■ Establish a clear policy on the types of issue on which they will meaningfully consult on or engage with the public and service users, including a feedback mechanism for those consultees to demonstrate what has changed as a result <hr/> <ul style="list-style-type: none"> ■ Publish an annual performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period <hr/> <ul style="list-style-type: none"> ■ Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so 	<ul style="list-style-type: none"> ■ Partnership framework ■ Communication strategy <hr/> <ul style="list-style-type: none"> ■ Annual report ■ Annual financial statements ■ Corporate plan ■ Annual business plan <hr/> <ul style="list-style-type: none"> ■ Constitution ■ Freedom of Information Act publication scheme ■ Council tax leaflet ■ Authority website
<p>3 Making best use of human resources by taking an active and planned approach to meet responsibilities to staff</p>	<ul style="list-style-type: none"> ■ develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making. 	<ul style="list-style-type: none"> ■ Constitution ■ Adherence to best practice standards in recruitment and staff terms and conditions

Bibliography

Governing Partnerships: Bridging the Accountability Gap (Audit Commission, 2005)

Further information

ANNUAL GOVERNANCE STATEMENTS

Reporting

Delivering Good Governance in Local Government: Framework urges local authorities to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the corporate governance and internal control framework of an organisation.

From 2003/04, the Accounts and Audit Regulations required authorities in England to carry out a review at least once in a year on the effectiveness of their systems of internal control and to prepare and publish a statement on internal control (SIC) in accordance with ‘proper practices’.

In England, from 2007/08 the wider CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* was accorded ‘proper practices’ status by the DCLG through non-statutory guidance.

The requirement to produce a SIC has subsequently been amended by the Accounts and Audit (England) Regulations 2011. Regulation 4(3) now requires all relevant bodies to prepare an annual governance statement which must accompany the statement of accounts. This requirement is reflected in the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* (CIPFA/LASAAC).

Key good practice features of an annual governance statement are described below:

- the statement has been properly approved⁴
- it is easily accessible by authority members and members of the public, eg through its prominent display on the authority’s website
- it reflects the vision of the authority, ie the big picture and not the detail
- it demonstrates ownership by the authority – it has a high status within senior management
- it is a key document for showing how the authority is achieving its strategic objectives
- it demonstrates challenge

4. The annual governance statement should normally be approved at the same time as, or very near to, and certainly no later than, the statement of accounts.

- issues are clearly articulated and it communicates a clear and concise message
- it clearly communicates what has been done to resolve significant control issues and what remains to be done
- actions identified are SMART (specific, meaningful, allocated, realistic and timely)
- it is a 'living' document, ie it is not focused exclusively on the year-end and communicates significant issues which may change from year to year.

Addendum to Delivering Good Governance in Local Government: Framework

The supplement included in the *Delivering Good Governance in Local Government: Framework* contains an example annual governance statement. In 2012, CIPFA/SOLACE issued an addendum, including an updated example showing an increased emphasis on a strategic approach focusing on outcomes and value for money. The example has also been updated to reflect Regulation 4(3) of the Accounts and Audit Regulations 2011, which requires all relevant bodies to prepare an annual governance statement rather than a statement on internal control.

EXAMPLES

There follow some recent annual governance statements that illustrate some of the points summarised above.

Staffordshire County Council

The following extract is the first four pages from Staffordshire's statement. It is well written in a readable and open style.

ANNUAL GOVERNANCE STATEMENT 2010/2011

1. What we are responsible for

We are responsible for carrying out our business in line with the law and proper accounting standards, and for using public money economically, efficiently and effectively, and accounting for it properly. We also have a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and an efficient and effective service.

To meet our responsibility, we have put in place proper arrangements for overseeing what we do (this is what we mean by governance). These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in good time, and in a fair, open, honest and accountable way. We have approved and introduced a Code of Corporate Governance. You can get a copy of the code from our website at www.staffordshire.gov.uk or from:

Law and Democracy
16 Martin Street
Stafford
ST16 2LG.

This governance statement explains how we have followed the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011.

2. The aim of the governance framework

The governance framework is basically the systems and processes, and the culture and values, we are controlled by and which we answer to, get involved with and lead the community. The framework allows us to monitor how we are achieving our long-term aims, and to consider whether our aims have helped us deliver appropriate services that are value for money.

The system of internal control is an important part of the framework and we have designed it to manage risk to a reasonable level. It cannot remove all risk of failing to achieve our policies and aims, so it can only offer reasonable protection. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks that could prevent us from achieving our policies and aims;
- assess how likely it is that the identified risks will happen, and what will be the result if they did; and
- manage the risks efficiently, effectively and economically.

We have had the governance framework in place from 1 April 2010, and up to the date we approved the statement of accounts.

3. The governance framework

Our governance framework is made up of the many systems, policies, procedures and operations we have in place to do the following.

a Publish our aims for local people and others who use our services

We have revised our Strategic Plan called 'For your family, our community, and a prosperous Staffordshire' for 2011-2016. The plan sets out our plans for the next five years, focusing on achieving nine outcomes through an approach which places customers at the centre of all we do. The plan reflects the time period covered by the Medium Term Financial Strategy (MTFS).

The Strategic Plan is based on the following five key values which we will work towards in the future.

- Customer and citizen focus
- Listening and responding to local needs
- Encouraging personal responsibility while protecting those who need us
- Prepared to be bold and show leadership
- Provide efficiency and economy through innovation

The Strategic Plan is supported by the Outcome Delivery Plans. It is in these plans that we set out the measures, targets and activities that will help to achieve the outcomes contained in the Strategic Plan.

The Strategic Plan provides a focus for the organisation and makes sure that our resources are being directed towards achieving our outcomes, which will improve the quality of life for the people of Staffordshire and its economy. These outcomes, as set out in our Strategic Plan (2011-2016) are as follows.

- 'Staffordshire's economy prospers and grows, together with the jobs, skills, qualifications and aspirations to support it.'
- 'Staffordshire is a place where people can live safely- increasingly free from crime, the causes of crime and the fear of crime.'
- 'In Staffordshire communities, vulnerable people are able to live independent and safe lives, supported where this is required.'
- 'Staffordshire's children and young people can get the best start in life and receive a good education so that they can make a positive contribution to their communities.'
- 'Staffordshire is a place where people live longer, healthier and fulfilling lives.'
- 'Staffordshire is a place where people can easily and safely access everyday facilities and activities through the highways and transport networks.'
- 'Staffordshire communities can access, enjoy and benefit from a range of learning, recreational and cultural activities.'
- 'Staffordshire's people are involved in shaping the delivery of public services.'
- 'Staffordshire's communities are places where people and organisations proactively tackle climate change, gaining financial benefit and reducing carbon emissions.'

These outcomes are built upon efficient and innovative support services which make sure that we meet the needs of our customers in a consistent way.

We developed the Strategic Plan after speaking and listening to members of the public and our partner organisations. We have also taken into account:

- how we have performed compared to other local councils; and
- the views of those organisations that audit and inspect our performance.

Our outcomes within the Strategic Plan reflect those recently agreed by the Staffordshire Strategic Partnership as priorities for all of Staffordshire's public services. All our cabinet members and directors have accountability statements that clearly link to the Strategic Plan.

The Service Plans that support the Outcome Delivery Plans set out the specific objectives for a particular service and will include the performance indicators which we use to measure our performance in achieving our outcomes. These plans then become work plans for employees.

b Review our aims and the effect they have on our governance arrangements

During the last year we have worked hard to communicate (and receive feedback on) our aims for the community. We have done this in a number of ways, including:

- publishing our residents' magazine, 'Your Staffordshire', every three months;
- using the Staffordshire People's Panel;
- maintaining the Staffordshire Local Community Fund for 2011/2012, giving councillors the opportunity to influence our spending and services in their local communities; and
- webcasting council and cabinet meetings on our website so that local people can see how decisions are made.

We get regular and detailed information on what people think about the quality of each of our services and by monitoring the compliments and complaints we receive. We use this information to help us make decisions. We used the feedback we got from the consultation on our budget to develop the Strategic Plan and the MTFs, and to set levels of council tax. This consultation resulted in us setting our outcomes, which reflect residents' top priorities of improving the economy, supporting our most vulnerable people, increasing community safety and improving the transport network. We have already introduced a travel card for older and younger people of the county.

It is our Corporate Governance Working Group's responsibility to make sure that our governance arrangements are consistent with, and support us in, achieving our aims.

c Measure the quality of our services and make sure we provide them in line with our aims and that they provide value for money

We have a Performance Management Framework which we use throughout the county council. This framework identifies the main areas involved in developing an effective system for managing our performance. This includes a performance management information system to support the framework and its aims.

As well as the cabinet, the Senior Leadership Team (SLT) and individual management teams, our reporting system gives the scrutiny committees a central role in monitoring our performance. The SLT and the cabinet receive a monthly performance scorecard against important indicators and activities. This allows them to act quickly when our performance seems to be slowing or even failing. Every three months, the SLT and the cabinet receive a full and detailed performance report that compares how we have delivered our services and managed our finances against the plans and, as a result, the Strategic Plan. A good example of this can be taken from the work that we do to reduce health inequalities across Staffordshire. A quarterly performance report indicated that we were not reducing the health inequalities of children and young people in a small number of hot-spots across Staffordshire. We and the organisations we work with responded to this by developing four local projects in the worst-affected areas. Each project takes a slightly different approach, but all aim to deal with the whole problem, and getting to the root causes of inequalities in the health of children, rather than dealing with the symptoms. Every six months, each cabinet member is held to account by the relevant Scrutiny Committee for their performance against the Strategic Plan and whether they have achieved the outcomes.

Each year we consider our performance. This coincides with our annual performance report, which we produce for the people of Staffordshire in the 'Your Staffordshire' magazine.

Dorset County Council

This example from Dorset County Council clearly illustrates openness and transparency in reporting.

SCOPE OF RESPONSIBILITY

- 1.1. Dorset County Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for and that funding is used economically, efficiently and effectively. Dorset County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility Dorset County Council is responsible for putting in place suitable arrangements for the governance of its affairs, which facilitate the effective exercise of its functions and include arrangements for the management of risk.
- 1.3 Dorset County Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government* framework. In 2010/11, additional requirements recommended by CIPFA in March 2010 were incorporated. A report on the code and the latest assessment of compliance with it are published on the Dorsetforyou website with the Standards Committee papers for 16 April 2012 or can be obtained from the County Council Offices, County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ. This statement explains how Dorset County Council has complied with the code. It also meets the requirements of regulation 4(4) of the Accounts and Audit Regulations (England) 2011 in relation to consideration of the findings of a review of the system of internal control and approval and publication of an annual governance statement.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled, together with the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Dorset County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Dorset County Council for the year ended 31 March 2012 and up to the date of approval of the annual statement of accounts.

3. The governance framework

- 3.1 Some of the key features of the governance framework are set out in the following paragraphs.
- 3.2 The corporate plan sets out the contribution we will make to enabling communities in Dorset to thrive, now and for the future. From 2011/12 it has been explicitly linked to the budget, ensuring

- that the aspirations in the plan are realistic in the context of the funding constraints placed on the Council. The corporate plan is reviewed annually. This review takes account of feedback from surveys conducted with the public in Dorset on general satisfaction and specific service issues, including through our Citizens' Panel. It is also informed by consultation with a Staff Panel.
- 3.3 Delivery of the County Council's corporate plan is supported by service plans, team plans and individual performance development reviews. These all include targets and, where appropriate, service standards against which service quality and improvement can be judged.
 - 3.4 The Constitution of Dorset County Council establishes the roles and responsibilities for members of the executive (the Cabinet), Overview, Scrutiny, Regulatory and Standards Committees, together with officer functions. It includes details of delegation arrangements, codes of conduct and protocols for member/officer relations. The Constitution is kept under review to ensure that it continues to be fit for purpose. Proposed changes to the Constitution are overseen by the Standards Committee, which has a majority of independent external members and no Cabinet members. The Standards Committee's views on the suitability of any changes are reported when they are presented to the full County Council for approval.
 - 3.5 The Constitution also contains procedure rules, standing orders and financial regulations that define clearly how decisions are taken and where authority lies for decisions. The statutory roles of Head of Paid Service, Monitoring Officer and Chief Financial Officer are described together with their contributions to provide robust assurance on governance and that expenditure is lawful and in line with approved budgets and procedures. The influence and oversight exerted by these posts is backed by the post-holders' membership of the County Management Team.
 - 3.6 The primary counterbalance to our Cabinet is the Audit and Scrutiny Committee. The Committee provides a robust challenge to the Executive, including two calls to account during 2011/12 and a number of other reviews into activities where it considered that performance could be improved.
 - 3.7 A complaints procedure and a whistle-blowing policy are maintained and kept under review, providing the opportunity for members of the public and staff to raise issues when they believe that appropriate standards have not been met. An annual report analysing complaints received and their resolution is presented to the Audit and Scrutiny Committee. The Standards Committee has responsibility for overseeing the investigation of complaints against members. There were no complaints made in 2011/12.
 - 3.8 Further assurance of proper practice has been provided by the annual Ethical Governance Audit. The 2010 audit, carried out using the I&DeA's 'Governance Toolkit', produced a strong net positive response in all areas, leading to the conclusion that a high degree of reassurance about adherence to high standards of ethics and probity could be taken from the review. An audit was not undertaken in 2011, in view of the changes in the framework for ethical standards arising from the Localism Act. A decision on future audit arrangements will be made later in 2012.
 - 3.9 The County Council has a strong risk management function. The risk management policy and strategy are reviewed annually. The Risk Management Group draws together lead officers from across the authority to ensure that issues and concerns are shared and that a consistent approach is adopted throughout the organisation. The Corporate Risk Register has informed preparation of the list of governance issues later in this statement.
 - 3.10 The Data Quality Action Plan established following the Data Quality Review carried out by our external auditors, KPMG, has been almost completely implemented. This is being followed by a concise Data Quality Policy and Checklist, to enable managers to ensure that data quality is maintained in the systems on which the Council depends to perform its duties.

- 3.11 Training needs of members and officers are identified through appraisal and review processes. Appropriate training is made available to staff to ensure that individuals are able to undertake their present role effectively and that they have the opportunity to develop to meet their and the County Council's needs. An extensive induction programme was put in place to ensure that newly elected members in June 2009 could quickly make an effective contribution to the work of the authority. A Policy Development Group on Member Development has been established, but progress in establishing and addressing the development needs of members has been slow.
- 3.12 The County Council is committed to partnership working. The Dorset Compact sets out a framework for voluntary and public sector relationships in Dorset. Guidance on best practice in partnership governance has been adopted to ensure that partnership arrangements are as productive and secure as possible. The establishment of the Dorset Waste Partnership between the County Council and the six districts and boroughs is the latest major example of the positive outcomes achieved through partnership working.

4. Review of effectiveness

- 4.1 Dorset County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by the findings and reports issued by the external auditors and other review agencies and inspectorates.
- 4.2 The Director for Corporate Resources has responsibility for:
- overseeing the implementation and monitoring the operation of the Code of Corporate Governance;
 - maintaining and updating the Code in the light of latest guidance on best practice;
 - reporting annually to the County Management Team and to Members on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.
- 4.3 The Chief Financial Officer has responsibility for the proper administration of the County Council's financial affairs. This includes responsibility for maintaining and reviewing Financial Regulations to ensure they remain fit for purpose, and submitting any additions or changes necessary to the full Council for approval. The Chief Financial Officer is also responsible for reporting, where appropriate, breaches of the Regulations to the Cabinet and/or the County Council. Although currently the Chief Financial Officer reports to the Director for Corporate Resources, this does not impact on his powers and responsibilities in respect of the financial affairs of the Council or his role as a member of the County Management Team.⁵
- 4.4 Dorset County Council's Internal Audit Service, via a specific responsibility assigned to the Head of Internal Audit, is required to provide an annual independent and objective opinion to the Authority on its risk management, governance and control environment. Since April 2010, internal audit work has been carried out under contract by the South West Audit Partnership (SWAP). The Head of Internal

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5. This paragraph explains that the authority's financial arrangements do not conform precisely with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* as set out in the Application Note to *Delivering Good Governance in Local Government: Framework*, but that this does not impact on the effectiveness of the chief financial officer in undertaking his role. Paragraph 4.5 explains that full compliance will be achieved upon the retirement of the current director for corporate resources.

Audit's report for 2011/12 concluded: "Overall, I consider that Dorset County Council continues to maintain a sound risk management, governance and control environment."

- 4.5 On 26 April 2012, the County Council resolved that "the functions of the Director for Corporate Resources and the Chief Financial Officer be combined into one post from a date to be arranged." This will require alternative arrangements to be established for the statutory role of the Monitoring Officer, but is outside the period covered by this Annual Governance Statement.
- 4.6 The review of compliance with the governance framework has involved:
- review of the latest position on the core principles by lead officers;
 - review of the overall assessment by the Corporate Governance Group;
 - discussion of the draft compliance assessment and significant governance issues at all Directorate Management Teams and at County Management Team;
 - review of the draft compliance assessment by the Standards Committee, the Audit and Scrutiny Committee and the Cabinet;
 - consideration of the draft Annual Governance Statement by the County Management Team;
 - review of the draft Annual Governance Statement by the Audit and Scrutiny Committee and (before approval of the annual accounts) the Ad Hoc Accounts Committee.
- 4.7 The County Council has also been advised on the implications of the review of the effectiveness of the governance framework by the Standards Committee and Audit & Scrutiny Committee. Plans to address weaknesses and ensure continuous improvement of the system are recorded in the annual compliance assessment.

5. Significant governance issues

- 5.1 Governance issues can be put into two groups:
- (i) elements of the governance framework for which the compliance assessment has identified that some improvement is necessary to provide full assurance;
 - (ii) issues that the governance framework has identified and which require action to mitigate the exposure of the County Council.
- 5.2 In the first group, there were no elements of the framework for which the judgement is that the County Council is non-compliant, but there are nine for which the judgement is only partial compliance and where improvement is necessary. This is a decrease by one from 2010/11.
- 5.3 Actions needed to achieve full compliance are largely covered by existing improvement plans. The issues and actions can be summarised as follows. More detail of the evidence is provided against the relevant core principles in the compliance assessment:
- a) Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners
In spite of the Council's success in establishing partnerships, there is still some inconsistency in the way they operate. This is due to be addressed through one of the projects in the Meeting Future Challenges (MFC) programme that has been established to deliver the savings and changes in working needed for the County Council to manage with reduced funding in the future. Governance arrangements for the major partnerships in which the County Council is involved are not a cause of concern, but there remains concern about the legal and financial basis of some other partnerships and potential confusion from imprecise use of the description "partnership".

- b) Develop protocols to ensure effective communication between members and officers in their respective roles
Timely and effective communication remains a concern for some members, particularly those serving on the Audit and Scrutiny Committee. However, in the last round of member development interviews, when this had been flagged as a topic for discussion, the majority did not raise concerns. The protocol has been relaunched and the Head of Legal and Democratic Services has visited each Directorate Management Team to stress its importance. Instances of failure to comply have been taken up with relevant officers by Directors and, where necessary, by the Chief Executive.
- c) Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
The data quality strategy and action plan have largely been implemented. A concise data quality policy and checklist is being developed to assist managers in establishing and maintaining databases. Currently there are a number of instances where data is either not available or the quality currently is not sufficiently reliable without devoting significant resources to on-going data cleansing.
- d) Assess the skills required by members, officers and managers [for their governance roles] and make a commitment to develop those skills to enable roles to be carried out effectively
This relates to assessment and development of skills of members and officers, under the supporting principle “Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.” On-line training is being developed to help officers identify and undertake their specific governance responsibilities, which also should be considered during the Performance and Development Review (PDR) process.
- e) Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed
This relates to the same supporting principle as above. Training for members is not always successful in achieving its aims and alternative approaches are to be considered.
- f) Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority
The concern relates to engagement of all sections of the community in the work of the authority. The framework requirement relates particularly to membership of the authority, but the commentary in the compliance assessment records an example of success in achieving wider engagement and participation. Information for prospective candidates for election has been published on Dorsetforyou and in *Your Dorset* but a more active part in promoting the role of elected members has been left to political parties. Members have not previously felt that more direct efforts should be made by the County Council to promote greater representation from the equality groups. A decision will be needed on whether targeted information should be made available to equality groups before the next election to ensure that all sections of the community have the chance to put themselves forward for office.
- g) Ensure that career structures are in place for members and officers to encourage participation and development
There has been good progress through the recent restructurings in ensuring that career structures for officers are in place. The main concern under this heading is whether career structures can and should be in place for members. Discussion of the compliance assessment in previous years has indicated that members do not generally consider that this is either feasible or appropriate.

Despite some individual examples of members undertaking formal development, the slow progress of the Policy Development Group on Member Development suggests the position is unlikely to change soon.

- h) Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority
The concern is that reports are available, but their ease of use and accuracy it is not yet at the level required before responsibility is passed to budget managers, enabling accountancy input and support to their production to be reduced. Work is continuing to improve the accuracy and accessibility of the principal financial and management reports.
 - i) Ensure that councillors' roles and responsibilities for monitoring financial performance / budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities. Opportunities for training and briefings are provided, frequently at members' request, but attendance is sometimes low. Workshops have recently been run to enhance understanding of the published accounts. Ad hoc opportunities will continue to be offered, but the planned skills audit has not yet taken place and the work by the Policy Development Group on Member Development, which is to be led by members, has been slow to gather pace. This will be discussed with group leaders.
- 5.4 The second group are issues that involve a significant financial or reputational risk to the County Council. A prime purpose of the governance framework is to minimise the occurrence of such risks and ensure that any which do arise are highlighted so that appropriate mitigating action can be taken. These issues are largely substantial challenges to be managed over the long term. Many of the headings are the same as in previous years although the details change over time.
- 5.5 Significant issues in this group are ***[headings only reproduced]***:
- (i) The County Council's budget and the impact of the economic downturn
 - (ii) Risk of overspending, including pressures such as campus reprovision, learning disability services, services to older people, increased numbers of children in care, transport costs for pupils not in mainstream education and winter maintenance
 - (iii) Repairs and maintenance backlog of buildings and roads
 - (iv) Adult Social Care performance, including the impacts of funding changes through the County Council and the NHS and of the Social Care Act
 - (v) Safeguarding of children and adults
 - (vi) Outstanding claims
 - (vii) Information security and governance (data protection)
 - (viii) Consultation and the use of evidence, including equalities issues
 - (ix) Implementation of the Purbeck Schools review
 - (x) Industrial relations, particularly with regard to employment terms and conditions, including the Local Government Pension Scheme

5.6 We are satisfied that appropriate arrangements are in place to address improvements identified in our review of compliance. Progress on these improvements and on addressing and mitigating the risks set out in section 5.5 will be monitored through the year by the officers' Governance Group and the Audit and Scrutiny Committee.

Chief Executive

Leader

September 2012

London Borough of Barnet

The annual governance statement from LB Barnet is a good example of a clear presentational style that helps to tie together the narrative of the annual governance statement in an engaging way. Pages 1, 2, 3, 5, 13 and 22 are reproduced below.

ANNUAL GOVERNANCE STATEMENT

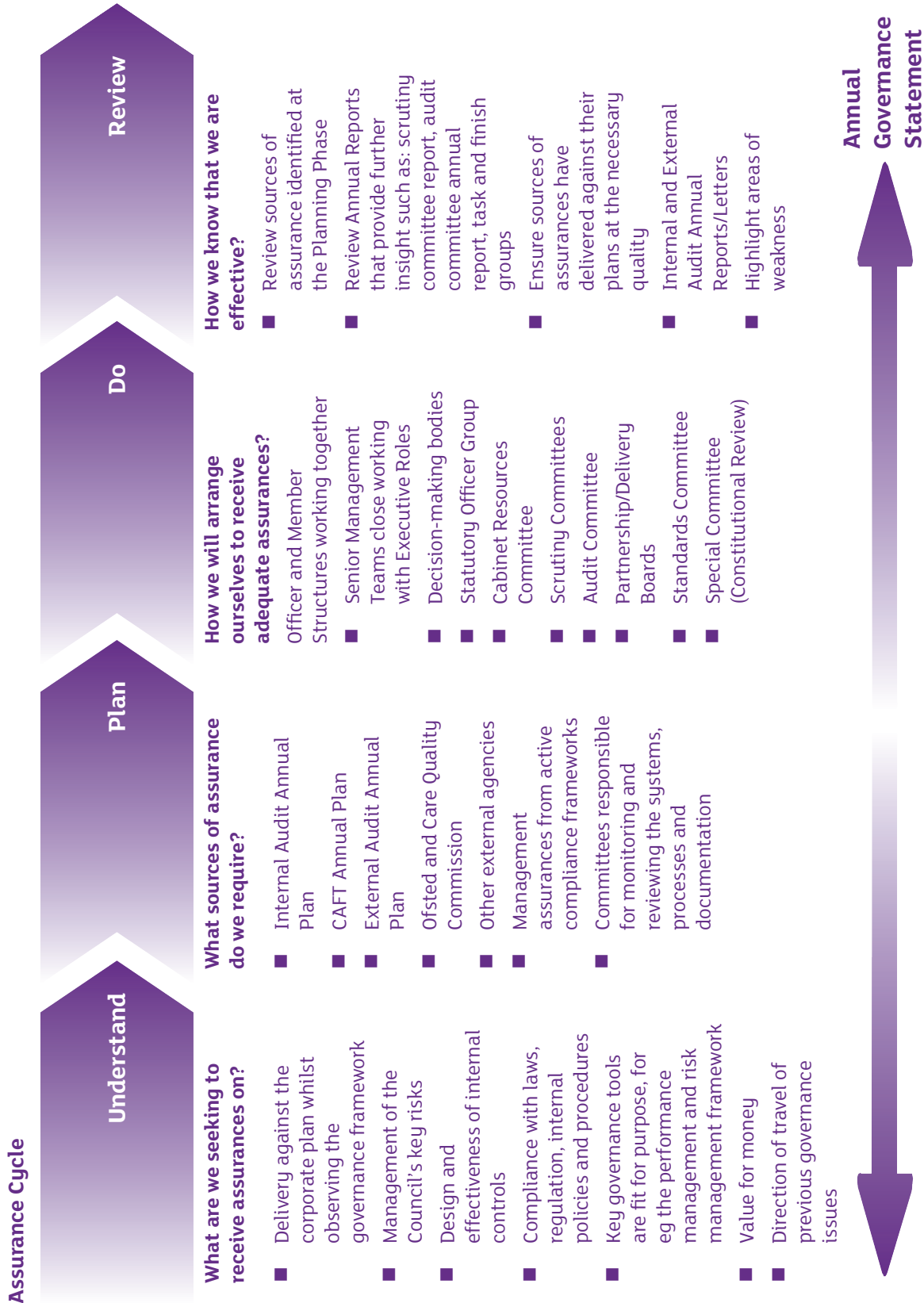
2011-12

1. Scope of Responsibility

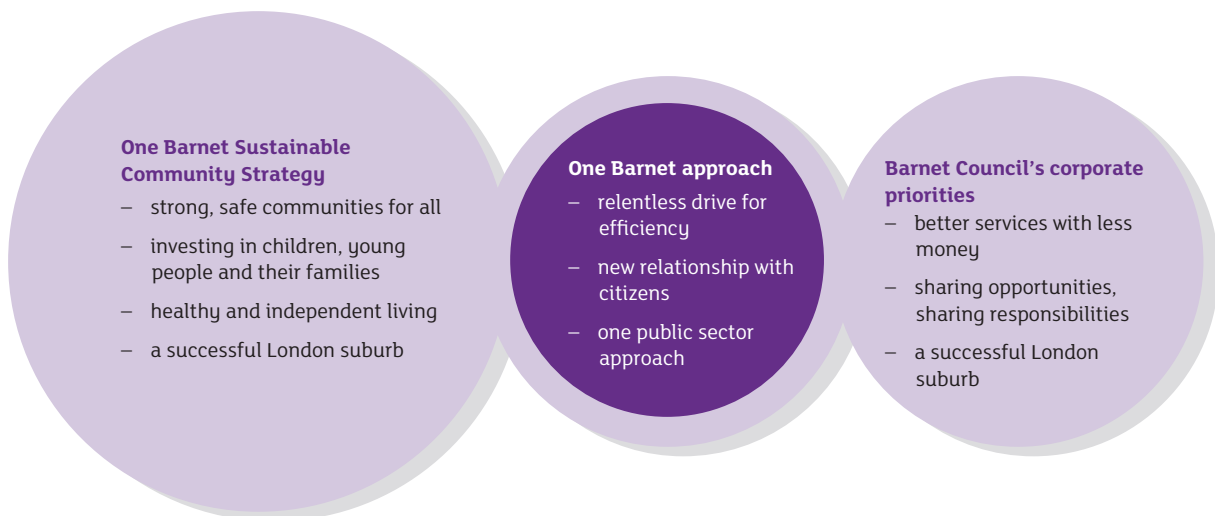
- Barnet London Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to economy, efficiency and effectiveness.
- In discharging this overall responsibility the Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk.
- Barnet London Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework delivering Good Governance in Local Government. This statement explains how the Council has complied with the code and also meets the requirements of regulations 4[2] of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations 2006 in relation to the publication of a statement of internal control.
- The Director of Corporate Governance completed his biennial review of the Code of Corporate Governance during 2010-11. The Code of Corporate Governance is included within Part 5 of the Constitution.

2. The Purpose of the Governance Framework

- The governance framework encompasses the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of London Borough of Barnet policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- The governance framework has been in place within Barnet London Borough Council for the year ended 31st March 2012 and up to the date of approval of the annual report and accounts.



Principle	Description of Governance Mechanisms	Assurances received
1. Identifying and Communicating the Council's Vision and Purpose	<ul style="list-style-type: none"> ■ Members, working with officers, have developed a clear vision of their purpose and intended outcomes for citizens and service users: ■ The One Barnet Sustainable Community Strategy sets out the ten year vision for the borough ■ One Barnet Partnership Board works to the shared vision and oversees the other delivery boards that are tasked with leading on specific themes in the Strategy ■ The Corporate Plan expresses the vision and priorities of the council and this has been communicated to residents, service users, partners and other stakeholders ■ Delivery Boards: Safer Communities Board, Children's Trust Board, Health and Well Being Board continue to meet and are leading the development of integrated services around specific themes ■ The Council uses different performance measures (quality, outputs, value for money, customer satisfaction) to give an overview of council performance and stimulate improvement ■ A new governance structure around Partnerships and Partnership Boards was approved by Cabinet in February 2012 	<ul style="list-style-type: none"> ■ Performance Management Framework – information is published quarterly against the corporate priorities and targets and reported through Cabinet Resources Committee subject to call in by scrutiny committees ■ Externally reported data: Government Single Data List, London benchmarking and LGG Inform benchmarking available to support performance reporting ■ We publish strategic and service data online to enable residents to hold us to account ■ Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement ■ Employee Annual and Half-year review process linked to the Council's objectives ■ Governance paper on Strategic Partnerships, Cabinet February 2012



Governance Issues – Progress

The table below describes the governance issues identified during 2010-11 and the progress made against these during 2011-12:

Key improvement area	Lead officer	Update on position	Carry forward for 2011-12
An overarching Information Management Strategy to pull together the various policies and procedures relating to information governance, data processing and management.	Commercial Director	The Information Management Strategy was approved by the Information Governance Council in November 2011.	Complete.
Contract Management/ Procurement – work is underway to ensure that the Council has an accurate and complete contracts register and that centrally there is a process to monitor spend in accordance with the contract procedure rules (CPR).	Commercial Director	Monitoring of compliance is now a regular activity across the service areas and a centrally held contract's register is in place. Contract management and supplier relationship management will now be implemented which will lead to good procurement practice across the Council. Recommendations identified in the April audit will be closed by end of July.	Internal Audit – Limited Assurance issued in April 2012, carry forward to 2012-13.

Appendix A: Published Sources of Assurance

- Code of Corporate Governance – Part 5 of the Constitution
- Corporate Plan 2012-13, specifically the equalities page 18
- Quarterly Performance Reports 2011-12
- Internal Audit, Risk Management and CAFT Annual Plan 2011-12
- Internal Audit Annual Report 2011-12
- Pay Policy 2012-13
- CAFT Annual Report 2011-12
- External Audit Annual Audit Letter 2010-11
- Overview and Scrutiny Annual Report 2011-12
- Task and Finish Group reports

- Audit Committee Annual Report 2011-12
 - Audit Committee Terms of Reference and workplan 2011-12
 - Governance of Strategic Partnerships, Cabinet February 2012
 - Ofsted report into Safeguarding and Looked After Children 2012
 - Citizen Panel Annual Report 2012
 - Local Account for Adults Social Care and Health
 - Statement of Accounts and Medium Term Financial Strategy
 - Residents Perception Survey 2011
 - Review of residents forums and area sub committees, April 2011
 - Committee minutes, agendas and reports 2011-12
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Local Government Governance Review 2012 (Grant Thornton, 2012)

THE ROLE OF SCRUTINY

Introduction

The Local Government Act 2000 brought in new arrangements that defined a scrutiny role for elected members sitting on the overview and scrutiny committees in holding the politicians who formed the executive or cabinet to account, and in scrutinising the work of other agencies providing local services. There became a clear distinction between the executive's role in proposing and implementing policies, and the role of non-executive members in reviewing policy and scrutinising executive decisions.

The overview and scrutiny committees were given powers to study decisions and policies of bodies other than councils operating in their areas and to require council officials and cabinet members to attend and answer questions. They are able to make recommendations and propose changes to be considered by the executive.

Through the scrutiny process, councillors have been given significant power to hold their partners to account. The Health and Social Care Act 2001 gave councils responsibility for scrutinising local NHS trusts, including primary care trusts. Powers were further expanded by the Police and Justice Act 2006, which provided powers to scrutinise the work of crime and disorder reduction partnerships. The Local Government and Public Involvement in Health Act 2007 and the Local Democracy, Economic Development and Construction Act 2009 gave powers to local government to scrutinise other partner organisations, including bodies such as the Environment Agency. It also brought in provisions that affect how scrutiny committees work, including powers over the creation of joint committees, and powers to resolve local problems through the 'councillor call for action'.

The Localism Act

The Localism Act 2011 consolidated the content of the 2000, 2001, 2007 and 2009 Acts referred to above. It involved some minor amendments, particularly in the powers of district councils and the role of scrutiny in relation to local partners.

Through the Localism Act, the government is encouraging greater use of the directly elected mayor model of governance. A role focusing on long-term strategic decisions is envisaged, bringing together different agencies to facilitate improved public services. A partnership-focused mayoral model would need to be accompanied by strong overview and scrutiny of partnerships.

At the same time, the Localism Act permits local authorities to choose to introduce a committee system for decision-making purposes which may (although this is not a requirement) operate a system for scrutiny and review.

It remains essential, however, that local authorities, whatever form of governance structure they choose, should benefit from a culture of (and structure for) scrutiny. Authorities electing to adopt a committee system will need to ensure that they are able to exercise their scrutiny powers around healthcare, social care and health improvement, crime and disorder and external partners, as well as independent challenge to decisions made by their committees, effectively. Authorities will need to think through how a system of checks and balances will work in order to ensure their committees drive forward improvements whilst mitigating risks.

Challenge and scrutiny contribute to good governance by being a key part of accountable decision making, policy making and review.

Principles of Good Scrutiny

The Centre for Public Scrutiny has established four core principles of good scrutiny. It:

- provides critical friend challenge to executive policy makers and decision takers
- enables the voice and concerns of the public
- is carried out by independent-minded councillors who lead and own the process
- drives improvement in public services.

Local authority overview and scrutiny committees have the power to summon members of the executive and officers of the authority before it to answer questions, and are able to invite other persons to attend meetings to give their views or submit evidence.

The role of scrutiny is to review policy and challenge whether the executive has made the right decisions to deliver policy goals. This is different from the role of the audit committee, which exists to provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the authority, including the scrutiny function, is operating effectively. That said, an audit committee's judgements may well be informed by the results of scrutiny within the authority.

The scrutiny function has the following legislative roles:

- holding the executive to account
- policy development and review
- external scrutiny – scrutiny committees have the power to consider matters that are not the responsibility of the local authority, but which affect the authority's area or its inhabitants.

Scrutiny and overview committees may also:

- provide satisfying and meaningful roles for non-executive members
- consider general performance, management and review
- ensure corporate priorities are met
- monitor and revise the constitution
- engage partner organisations, the public and the press.

Making Scrutiny Effective

In its publication *Leadership of Place: The Role of Overview and Scrutiny*, the Leadership Centre for Local Government identified three themes for improved scrutiny:

- **leading beyond authority boundaries** – being willing to look outward, beyond scrutiny of the council executive to scrutiny of all agencies whose activities affect their local place
- **authority recognition of and support for scrutiny** – the sign of a mature authority and its leadership is a willingness to be challenged and to see robust (and resourced) challenge as a necessary part of good governance
- **members taking responsibility for their own effectiveness** – scrutiny must be led and owned by elected members and there is much that members themselves can and should do to improve their own performance, skills and capacity.

In ‘Holding politicians to account? Overview and scrutiny in English local government’,⁶ some further suggestions for enhancing scrutiny were considered and are summarised below.

Member leadership and engagement

Chairs and members need to be willing to challenge the executive through questioning on topics of local relevance where there is a realistic prospect of influencing change.

To maximise the effectiveness of meetings, the chair and vice-chair should work with the scrutiny officer to decide how to structure meetings, who to invite and how the investigation should be concluded.

The chair will need to be:

- appropriately knowledgeable and skilled to be able to manage the meeting
- firm and tactful with those answering questions
- able to understand technical issues quickly
- able to lead, inspire and motivate the team
- a visible champion for scrutiny, raising its profile internally and externally
- proactive.

The chairs and members will need appropriate training.

6. By Andrew Coulson and Philip Whiteman, published in the May 2012 edition of *Public Money and Management*.

A responsive executive

The chair must be able to maintain a relationship with the corresponding members of the executive and with senior officers.

The committees should not be, or seen to be, controlled by the executive.

In turn, the executive should receive the reports from the committee sympathetically and act upon them as appropriate in order to effect improved outcomes in service delivery.

Genuine non-partisan working

Although this is not a formal requirement, the process can work more effectively when a committee can present a report with sound recommendations based on the best evidence available with all-party support.

Effective dedicated officer support and management of the process

Scrutiny is unlikely to be effective without the support of capable officers. Their duties include:

- working with the committee chair and vice-chair
- planning research
- preparing background reports
- inviting and briefing witnesses
- writing draft reports.

They will need to have:

- excellent research skills
- knowledge of the local area
- an interest in local and general affairs
- a diplomatic approach.

A supportive officer culture

Good scrutiny depends on people willing to share and expect something constructive from the process. Concerns need to be taken seriously and where relevant incorporated into appropriate recommendations.

A high level of awareness and understanding of the role of scrutiny

The function of scrutiny and the role of the committee need to be understood throughout the authority, and public awareness raised. It should be made clear that it is not a substitute for an audit committee.

Bibliography

The Good Scrutiny Guide, 2nd Edition (Centre for Public Scrutiny, 2006)

'Holding politicians to account? Overview and scrutiny in English local government' (Andrew Coulson and Philip Whiteman, *Public Money and Management*, May 2012)

Leadership of Place: The Role of Overview and Scrutiny (Leadership Centre for Local Government)

Musical Chairs: Practical Issues for Local Authorities in Moving to a Committee System (Centre for Public Scrutiny, 2012)

FRAUD

Introduction

In 2010/11, fraud cost the UK economy an estimated £38.4bn, with fraud against the public sector accounting for 55% of all UK fraud losses. It has been estimated that there were losses of £21.2bn for the public sector overall and £2.1bn specifically in local government. Fraud can be a major risk to councils both financially and reputationally and needs to be considered as part of formal risk management processes.

Local authorities are urged to make use of the guidance, toolkits and websites available to them in developing robust processes for countering fraud.

Key Steps for an Effective Fraud Strategy

The Better Governance Forum's briefing *Developing Corporate Anti-Fraud Capability in the Public Services* sets out the rationale for developing or improving a corporate anti-fraud strategy. It identifies the key steps to be taken which are outlined below. The full briefing is at www.cipfa.org/-/media/files/hot%20topics/fraud/cipfa_corporate_antifraud_briefing.pdf

Identifying and understanding fraud risks and potential exposure to fraud loss

The first stage is to understand the different types of fraud risk and which parts of an authority may be most vulnerable to them. Some types of fraud relate to many different parts of an organisation, such as fraudulent expense claims, and some are specific to a certain service, for example tenancy fraud. Fraud may be external to the organisation or internal. It may involve collusion. The perpetrator may be an individual or someone acting as part of a group.

Compiling a 'map' of fraud risks will help organisations understand the level of fraud loss to which they may be exposed. Use of external data such as the National Fraud Authority indicators may help.

Assess current resilience to fraud

Once the full extent of risks is understood, an organisation should then consider how resilient it is to those risks. Overall levels of assurance can be evaluated from the arrangements in place that have a cross-cutting impact, such as co-operation, awareness and attitude to fraud. Good levels of internal control – such as separation of duties and protection of core data

from unauthorised access – are essential for managing fraud risks. Developing an anti-fraud culture is an important part of improving resilience. Examples of key components include top-level commitment and educating staff about the risks of fraud in their areas.

Evaluate the organisation’s ability to respond to potential or identified fraud

An effective response to fraud does not just involve the conduct of an investigation; it should also include measures to detect potential frauds or action such as awareness campaigns.

The investigation of fraud should only be taken by properly trained and skilled fraud investigators. Ideally the fraud investigation resource will have experience of a wide range of fraud types and good knowledge of the service areas involved.

Develop a strategy

An effective anti-fraud response will include key objectives and developments needed. It will outline the core benefits that should accrue to the organisation and the key actions that are required to establish or enhance an anti-fraud capability that can respond to the organisation’s level of risk. It will also include detail on the resources required, a timetable and performance measures.

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Fighting Fraud Locally: The Local Government Strategy

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www.nafn.gov.uk

National Fraud Authority

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Fraud Focus Newsletter

www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fraud-focus-newsletter

Audit Commission National Fraud Initiative

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MAINTAINING STANDARDS

Introduction

The Localism Act 2011 repealed most of the standards provisions in the Local Government Act 2000, including the statutory code of conduct, the Standards Board and legal requirement to have a standards committee. The Act instead imposed a duty on local authorities to promote and maintain high standards of conduct by members and co-opted members and an obligation to adopt a code of conduct consistent with the Nolan principles, but otherwise provided wider flexibility, reflecting localism principles, for authorities to meet the new duty structurally, and through arrangements for investigating complaints. New criminal offences have also been created dealing with the non-notification and non-disclosure of 'disclosable pecuniary interests', improper participation in authority business and the provision of false and misleading information.

Duty to promote and maintain high standards of conduct

This new duty introduced in the Localism Act links with the third principle of the CIPFA/SOLACE Framework – *Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct* – and its supporting principles. Shared values that become integrated into the culture of an organisation and are reflected in behaviour and policy are hallmarks of good governance.

Code of conduct

CIPFA believes that codes of conduct for members are an essential component of good corporate governance for all public service bodies as they define the values and standards of behaviour expected of individuals. In our view, nationally set codes of conduct can be used to promote consistent standards of conduct and probity, and to provide assurance for community stakeholders. Their existence helps minimise lapses and provides a framework for personal accountability. Basic standards and practices should be consistent across the sector.

DCLG has published an illustrative text setting out what a council's code of conduct might look like under the Localism Act 2011, available at

www.communities.gov.uk/publications/localgovernment/localcodeconduct

The LGA, with support from SOLACE and ACSeS, has published a template for a code together with guidance identifying expectations intended by the code, available at

www.local.gov.uk/web/guest/media-centre/-/journal_content/56/10171/3376577/NEWS-TEMPLATE

Standards Committee

A standards committee at a local level provides a mechanism for complaints to be investigated. It should act as a disincentive to misconduct through objective overview and complaints handling. Local standards committees, among other things, should help promote confidence in local democracy. To be effective, they must be chaired by an independent

person appointed through open competition, who is able to command the trust of all political parties and of the public.

Duty to Promote and Maintain Standards

As well as ensuring compliance with the provisions of the Localism Act, authorities should consider how they will fulfil the new duty to promote and maintain standards. The following actions will help support the achievement of this new duty:

- Providing a system to record gifts and hospitality and to advise on acceptable limits. The register should be subject to regular review and public reporting.
- Providing ethical awareness training to all new/co-opted members and regular updates for existing members.
- Providing guidance to members on the application of codes of conduct and other aspects of the ethical framework when participating in partnership bodies or other representative roles.
- Undertaking periodic surveys of members and key officers who interact with members to obtain their views on the application of the ethical framework in practice and to identify any concerns or learning points.
- Ensuring that the annual governance statement provides clear accountability for fulfilling the duty.
- Properly and effectively applying arrangements for investigating and deciding on allegations of breach of code made against members.

AUDIT COMMITTEES

Introduction

Local authorities have the freedom to make their own judgements about appropriate governance arrangements and to justify their decisions through the relevant accountability channels. However, it is important that the respective committees are clear about their roles and responsibilities and that there is a clear distinction in their terms of reference. This will avoid confusion, disputes and possible duplication. Furthermore, committees are likely to be more effective if they are required to focus on their own defined areas of business.

Audit committees are currently not mandatory in local government, although most authorities now have them. The focus of an audit committee is to oversee financial processes, audit and risk management. The CIPFA publication *Audit Committees: Practical Guidance for Local Authorities (2005)*⁷ recommends that the audit committee will:

- consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements
- seek assurances that action is being taken on risk-related issues identified by auditors and inspectors

7. CIPFA will be looking to update this guide in 2013 to take account of changes to local government audit.

- be satisfied that the authority's assurance statements properly reflect the risk environment and any actions required to improve it
- approve (but not direct) internal audit's strategy and plan, and monitor performance
- review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary
- receive the annual report of the head of internal audit
- consider the reports of external audit and inspection agencies
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted
- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

Benefits of an Audit Committee

Good governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an audit committee, independent of the executive and scrutiny functions. The audit committee can have a significant role in:

- helping to ensure an authority achieves value for money (this is explored more fully in the Value for Money section on page 69)
- giving additional assurance through a process of independent and objective review
- helping to improve the adequacy and effectiveness of risk assessment, risk management and internal control
- reinforcing the objectivity, importance and independence of internal and external audits and therefore the effectiveness of the audit function
- raising awareness of the need for sound control and the implementation of recommendations by internal and external audit
- ensuring effective arrangements exist for enabling a whistleblower to report irregularities.

With the above points in mind, some examples of the type of questions that audit committee members might ask when discussing these subjects follow.

Questions for Audit Committee Members to Ask: Governance

The following section highlights the types of questions that an audit committee might ask related to the six principles of good governance.

1 Good governance means focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

Does the internal audit strategy meet our needs?

Are the authority's key risks still relevant to the current strategic objectives?

2 Good governance means members and officers working together to achieve a common purpose with clearly defined functions and roles

Does the internal audit reporting line ensure that audit recommendations are given due weight and attention?

How are external auditors co-ordinating their work with the authority's internal auditors?

Is a common definition of risk used across the authority?

3 Good governance means promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Are the internal auditors free from any other responsibilities that could impair their independence?

Are procedures followed consistently with the need to achieve value for money?

What steps are being taken to discharge the duty to promote and maintain high standards of conduct?

4 Good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Do internal and external auditors receive the necessary degree of co-operation?

Where internal audit budgets are being reduced, how will the level of assurance be maintained?

Have there been any attempts to restrict the scope of the internal auditors' work in any way?

How is the efficiency and effectiveness of internal audit demonstrated?

Do the internal or external auditors have any concerns about management's control awareness or operating style?

Does the audit committee have all the assurances it needs to meet its responsibilities and ensure the authority meets its statutory duties?

Is there effective assurance across all key areas?

Is the audit committee over-reliant on internal and external audit for assurance? Are there other sources of assurance that should be considered?

Have all staff had the opportunity to contribute to identifying the risks the authority faces?

Is risk management part of all planning and decision-making processes?

Is risk management integrated with the authority's other procedures?

Are appropriate procedures in place to ensure adequate user involvement in the development of new systems and major systems changes, including the design of control checks and balances?

Has the authority implemented national counter-fraud standards?

5 Good governance means developing the capacity and capability of members and officers to be effective

Are there appropriate training and induction procedures for audit committee members?

Does the audit committee periodically assess its own effectiveness?

Do internal audit staff have sufficient technical and professional knowledge and experience to ensure that audits are performed to appropriate professional standards? Is there sufficient systems expertise to deal with the level of technology used by the authority?

Does the authority run training sessions on risk management for new staff?

Has the authority assessed itself against the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government*? Are there any issues to address?

Has the authority assessed itself against the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations*? Are there any issues to address?

6 Good governance means engaging with local people and other stakeholders to ensure robust local public accountability

Does the authority's annual governance statement reflect reality?

Does the annual governance statement reflect compliance?

Are there areas where the authority does not comply with relevant guidance?

Did any circumstances prevent adherence to the agreed timetable for preparing and auditing accounts? Did any delays result in an audit overrun?

Do the authority's financial statements satisfy all statutory and regulatory disclosure requirements to which the authority is subject?

Value for Money

Value for money is often referred to as the three Es – economy, efficiency and effectiveness. While the responsibility for achieving value for money rests with management, the audit committee can have a crucial role in overseeing arrangements for securing value for money. It can do this in a number of ways:

- reviewing the value for money strategy of the authority
- commissioning individual value for money reviews to look at specific areas
- considering reports from the internal auditor on value for money arrangements; internal auditors should also examine controls aimed at ensuring value for money when carrying out reviews aimed at examining systems and controls
- examining the applicability of available value for money good practice guidance.

Questions for the audit committee to ask in relation to value for money include:

- Does the authority have a value for money strategy?
- What work on value for money is being carried out by the internal auditors?
- What additional work on value for money is being carried out?
- What management processes have been adopted to ensure value for money is achieved?

- Do the internal auditor's annual report and the audit committee's annual report comment on value for money?
- Can the authority identify how much money it has saved through its value for money initiatives?

Ensuring Effectiveness

For audit committees to be effective, they should have:

- clear, distinct and up-to-date terms of reference
- an appropriate place within the governance structure of the authority and effective reporting arrangements
- members that are fully aware of their role, appropriately trained and independent minded
- a skilled chair supported by members with financial and audit expertise
- an appropriate balance of expertise, experience, continuity and political neutrality to discharge its responsibilities
- officer support (including a secretary role)
- a clearly set out and agreed (but flexible) annual work plan
- a wide-ranging agenda that reflects the governance, risk and control priorities of the authority
- access to other committees/information as required
- agenda papers circulated well in advance of the meetings
- meetings arranged on a regular basis
- engagement with a wide range of services in accordance with the risks under review
- regular assessment of performance as a committee.

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Audit Committees: Practical Guidance for Local Authorities (CIPFA, 2005; CIPFA will be updating this guide in 2013)

CIPFA Better Governance Forum audit committee briefings
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THE GOVERNANCE OF RISK

Introduction

Risk is the uncertainty that an event or an action will adversely affect an organisation's ability to achieve its objectives and to execute successfully its strategies. An organisation's risk management framework provides the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation.⁸

The risk management framework is embedded within the organisation's overall strategic and operational policies and practices and hence forms a key part of the system of governance. Risk governance examines how risk management is integrated into the governance arrangements. A key part of the leadership of risk management is the responsibility of the governing body to ensure that it is satisfied with the management of risk and its ownership of and accountability for the strategic risks of the organisation.

Definition

Risk management can be defined as '*coordinated activities to direct and control an organization with regard to risk*'.⁹ It is not about being 'risk averse' but is about being 'risk aware'.

The Responsibility of the Governing Body for Risk Governance

The authority is responsible for the governance of risk and will need to determine its risk tolerance – the maximum level it is willing to take regarding each relevant risk, and its risk appetite – the amount and type of risk it is prepared to accept in pursuit of its objectives. This also includes maximising opportunities. An authority should not be so risk averse that it misses out on opportunities.

The authority needs assistance in carrying out its risk responsibilities. It is not common practice in local government to constitute a formal risk committee. However many authorities do have corporate risk groups. Such groups may advise and support those responsible for the management of risk and will also have oversight of the overall risk profile of the organisation. The group may have a role in advising the executive/leadership team on its risk tolerance and risk appetite and the current risk profile and the implications for the authority's strategic objectives. The role of an audit committee in relation to the governance of risk will be to monitor the effectiveness of these arrangements, keep up to date with the current risk profile and support the development of effective risk management practice. This can be achieved through an audit committee convened in accordance with best practice identified in CIPFA's *Audit Committees: Practical Guidance for Local Authorities*.

The authority needs to delegate the responsibility to design, implement and monitor the risk management plan to management. Good governance requires that risk management is embedded into the culture of the organisation, with members and managers at all levels

8. *Risk Management: Principles and Guidelines* BS ISO 31000:2009 (BSI).

9. *Risk Management: Principles and Guidelines* BS ISO 31000:2009 (BSI).

recognising that risk management is part of their job. At the highest level, risk management must be closely aligned to the organisation's strategic objectives, ensuring that there is a clear focus, at the top of the organisation, on those significant risks that would prevent the organisation achieving its key business objectives. An authority should, therefore, be able to demonstrate that risk management has been embedded in its corporate business processes, including:

- strategic planning
- financial planning
- service delivery
- policy making and review
- project management
- performance management.

The governing body needs to ensure that risk assessments are performed on a continuous basis. Risks should be prioritised and ranked to capture the organisation's risk profile. To enable effective strategic risk management, the number of significant business risks should be limited to those that are considered business critical – say the 10 to 20 top risks. Above this, it becomes more difficult to manage and monitor risks effectively.

To ensure effective governance of risk, there should be a clear relationship between the strategic risks faced by the authority and the organisational strategy. There should be clear ownership of the strategic risk profile by the leadership team.

An organisation's risks will change over time as its objectives and service delivery arrangements change, in response to either local issues or national policies. Over recent years, accompanying the move to more complex ways of operating, and the economic downturn, there has been an increase in the levels of risk local authorities are facing as a result of:

- reduced resources available to them
- changing governance structures/decision-making processes
- new ways of working including joint boards/committees
- partnership and third sector provision/involvement, including subsequent contractual risks.

Risk management arrangements must be flexible enough to respond to these changes; at the same time the response should be proportionate. What is seen as a low-level operational risk today may be tomorrow's significant business risk.

Transparency and Accountability for Risk

While some operational risks and their management may need to be kept confidential (for example risks that contain personal data or that are exempt under the Freedom of Information Act), authorities are encouraged to be open to the public and other stakeholders about the strategic risks they face and how they propose to manage them. Public documents including the corporate strategy, an annual report, explanatory foreword to the accounts and the annual governance statement can be used to assist the communication of risks to the public and other stakeholders.

Questions for Audit Committee Members to Ask: Risk

Do we understand how risk appetite and tolerance are applied in our authority?

How do we know that the largest risk management exposures in our authority are being managed effectively?

Are risks prioritised and ranked to focus on those risks outside the authority's risk tolerance limits?

How does the authority ensure that new ideas are considered and opportunities are not missed? Is innovation encouraged?

If the level of resource available to risk management is to be reduced, how will the authority's risk management strategy be adapted?

Are there processes in place enabling timely, relevant, accurate and accessible risk disclosure to the authority's stakeholders?

How has the authority satisfied itself that risk assessments, responses and actions are effective?

Does the authority undertake horizon scanning to identify longer-term risks as well as unexpected or unusual risks?

Bibliography

The Alarm National Performance Model for Risk Management in the Public Services (Alarm, 2009)

Managing Risks in Government (National Audit Office, 2011)

Risk Appetite & Tolerance Guidance Paper (Institute of Risk Management, 2011)

Risk Culture Under the Microscope: Guidance for Boards (Institute of Risk Management, 2012)

Risk Governance (CIPFA Better Governance Forum, 2011)

Principles of good governance: summary

THE CADBURY REPORT (1992)

The Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Report) identified three fundamental principles of corporate governance as:

Openness: An open approach is required to ensure all interested parties are confident in the organisation itself. Being open in the disclosure of information leads to effective and timely action and lends itself to necessary scrutiny.

Integrity: This is described as both straightforward dealing and completeness. It should be reflected in the honesty of an organisation's annual report and its portrayal of a balanced view. The integrity of reports depends on the integrity of those who prepare and present them which, in turn, is a reflection of the professional standards within the organisation.

Accountability: This is the process whereby individuals are responsible for their actions. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

The Cadbury Report defined these three principles in the context of the private sector, and, more specifically, of public companies, but they are as relevant to public service bodies as they are to private sector entities.

THE NOLAN COMMITTEE (1995)

Aspects of corporate governance in the public services have been addressed by the Committee on Standards in Public Life (the Nolan Committee, today chaired by Sir Christopher Kelly) which was established in 1994 to examine concerns about standards of conduct by holders of public office. Standards of conduct are regarded as one of the key dimensions of good governance. The first report, published in May 1995, identified and defined seven general principles of conduct which should underpin public life, and recommended that all public service bodies draw up codes of conduct incorporating these principles. The principles of public life are:

Selflessness: Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and actions and restrict information only when the wider public interest clearly demands.

Honesty: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership: Holders of public office should promote and support these principles by leadership and example.

GOOD GOVERNANCE STANDARD FOR PUBLIC SERVICES (2004)

In 2004, the Independent Commission on Good Governance in Public Services published a set of common principles that it wants all public sector organisations to adopt. The commission, set up by CIPFA in conjunction with the Office for Public Management, says there should be a common governance standard for public services similar to the private sector's UK Corporate Governance Code (formerly the Combined Code).

The *Good Governance Standard for Public Services* builds on the Nolan principles for the conduct of individuals in public life by setting out six core principles that it recommends should underpin the governance arrangements of all bodies:

- a clear definition of the body's purpose and desired outcomes
- well-defined functions and responsibilities
- an appropriate corporate culture
- transparent decision making
- a strong governance team
- real accountability to stakeholders.



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