

The Improvement Service

ELECTED MEMBER BRIEFING NOTE No. 10

Corporate governance



What is the purpose of the Briefing Note Series?

The IS has developed an Elected Members Briefing Series to help Elected Members keep abreast with key issues affecting local government.

Some Briefing Notes will be directly produced by the IS but we will also publish material from as wide a range of public bodies, commentators and observers of public services as possible.

We will use the IS website and Elected Member e-Bulletin to publicise and provide access to the Briefing Notes. All Briefing Notes in the series can be accessed at <http://www.improvementservice.org.uk/elected-members-development/>.

This Briefing Note has been prepared by the IS in partnership with CIPFA.

What is the challenge?

Good corporate governance is an essential element in the efficient running of **all organisations**. Whilst corporate governance requirements vary from sector to sector and organisation to organisation, essentially all are about the underpinning processes by which organisations are directed and controlled and the associated transparency and accountability. Corporate governance is, therefore, concerned with the structures and process for decision-making and accountability, controls and behaviour at the top of organisations. Quite simply, it describes the need for any organisation to have a clear direction and accountability and appropriate working arrangements in place to ensure that it achieves what it sets out to do.

A key challenge for some Elected Members is that on top of their governance responsibilities for the council, they also sit on a Board (e.g. Joint Fire or Police Board, NHS Board, charitable trust etc) and equally have corporate governance responsibilities for that Board. Whilst the same principles apply, corporate governance frameworks within Boards tend to operate at different levels:

- any relevant national legislation (e.g. Charity Law or Companies Act);
- any documentation written specifically for the organisation (e.g. what is contained in the Articles of Association);
- any additional guidance relevant to your sector (e.g. 'On Board' - Scottish Government's guide for Board members of public bodies in Scotland).

For local government, the focus of corporate governance in recent years has been on ensuring that:

- risk is properly assessed and managed and there are adequate internal controls in place;
- service delivery and performance is effectively scrutinised and reported;
- resources are used efficiently;
- there is a focus on the needs of the community;
- high standards of conduct are promoted.

All councils in Scotland have a duty to ensure that they secure 'Best Value' in the delivery of their services, and good corporate governance is a key aspect of this duty. The role of those who govern the organisation (Elected Members), as opposed to manage it (Chief Officers) is to:

- make sure that clear aims, outcomes and priorities are in place;
- ensure the right resources are in place to achieve these aims, outcomes and priorities and that these resources are used efficiently;
- scrutinise and monitor the delivery of services to ensure that the council's performance expectations are achieved;

- ensure the whole way the council operates is transparent and accountable back to the communities that elected them in the first place.

That may sound obvious as any organisation should have clear aims, outcomes and priorities. But think about it in the context of your council. You offer many services: to young children through to the very old; from waste collection and disposal to leisure and recreation. It is not easy to establish clear aims and outcomes for all these services, and even less easy to decide priorities between them when different parts of your community may want different things and have different priorities themselves. The key role for Elected Members in corporate governance is to make decisions about what the key aims and outcomes are and what the priorities between them are.

Even when you manage to be clear about aims, outcomes and priorities, getting the right resources in place to deliver them is frequently complicated as well. There are decisions about the particular services that need to be in place to deliver outcomes, but within those services there are also decisions about what kind of staff, structures and business processes need to be in place to ensure those services are deliverable. In matching resources and capacity to all that you want to achieve, you are faced with three related questions:

- Can we get more out of the existing resources that we have?
- Can we raise more resources?
- If neither of these are the case, how do we rethink and refocus our priorities to make sure we can deliver within the resources we have available?

These questions are all about setting the direction of the council, being clear about its outcomes and priorities and fitting the resources available to these priorities.

Why does corporate governance matter?

Corporate governance has been a high profile topic in recent years principally because of public concern at a lack of control at the top of organisations. There is evidence of public perception that, in certain cases, senior managers appear to have been able to act without restraint and that inadequately designed systems have failed to prevent fraudulent, inefficient or inappropriate behaviour. Indeed, a survey undertaken by the Committee on Standards in Public Life in 2006, focusing on public attitudes towards conduct in public life, demonstrated that the public's confidence that office holders will be held accountable for their conduct is limited. While the majority believes that public service organisations are committed to improving standards in public life, only a minority say they are confident that these organisations will generally uncover wrongdoing or that they will punish those in public office who are caught doing wrong.

In the early 1990s, developments in corporate governance gained momentum partly as a result of scandals involving directors or other senior staff in private sector organisations. For example, many people lost faith in company pension schemes after 1991, when Robert Maxwell was found to have stolen more than £400 million from 32,000 members of the Mirror Group Pension Fund. The Bank of Credit and Commerce International (BCCI) was forced to shut its doors by the Bank of England in 1991 amid fraud allegations, resulting in around 20 local authorities across the UK losing up to £30 million in investments.

In Scotland, there have been a number of high profile reports and inquiries in recent years highlighting inadequacies in the governance of public bodies. In one report, a Parliamentary Committee concluded that the governance arrangements in an NDPB did not identify or prevent a crisis which it should have done. Although not the primary factor, the committee believed that the Board failed sufficiently to challenge the Chief Executive over a significant operational development that ultimately failed. In another report, the Scottish Parliament's Audit Committee concluded that, on the evidence received, 'members of the Board of a public body had acted with probity throughout a very difficult period but could not escape criticism for not being aware of problems of which they should have been aware'.

Effective corporate governance is therefore critical to the efficient and effective leadership of local authorities. Good corporate governance will help to:

- improve the performance of services, through effective scrutiny and reporting;
- ensure resources are efficiently deployed to achieve the council's performance expectations;
- improve customer satisfaction, through the delivery of improved services and a focus on the needs of communities;

- build public trust and confidence in public services by ensuring accountability, transparency and high standards of conduct.

Audit Scotland's reports on Best Value audits indicate that those local authorities that made limited progress in Best Value overall have important governance issues to address and it is these issues which are limiting their ability to improve. Furthermore, research by the Audit Commission showed that there was an 'evident relationship' between corporate governance and service quality. Where corporate governance was found to be lacking, there was also evidence of:

- poor quality or absence of leadership;
- poor decision-making and decision-making processes;
- inadequate systems and processes, such as performance management;
- lack of clarity in roles, responsibilities and activities;
- poor working relationships and dysfunctional behaviours;
- insular organisational culture and poor focus on community and user needs;
- inadequate contingency plans or risk management strategies.

Issues for Elected Members

The public have a right to expect honest and upright behaviour from their elected representatives. Confidence in local democracy is essential to an open and inclusive society. This can only be achieved when those serving their communities adhere to - and can be held accountable for - the high standards expected of them. The Ethical Standards in Public Life etc (Scotland) Act 2000 introduced a new ethical framework to Scotland to ensure that high ethical standards are maintained. Ethical governance is increasingly important at a time when public services are heavily scrutinised and public opinion is formed not only on what Elected Members do but how they conduct themselves whilst in office.

The code of conduct can be viewed at <http://www.scotland.gov.uk/Resource/Doc/1070/0013139.pdf> Your council may have established its own Code of Conduct for Elected Members, which will also lay out the detail of how you should register interests, declare actual and potential conflicts etc. Elected Members are expected to follow these nine principles of behaviour:

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| Duty | You have a duty to uphold the law and act in accordance with the law and the public trust placed in you. You have a duty to act in the interests of the council as a whole and all the communities served by it, and to be accessible to all the people of the area for which you have been elected to serve, and to represent their interests conscientiously. |
| Selflessness | You should take decisions solely in terms of the public interest. You should not act in order to gain financial or other material benefits for yourself, family or friends. |
| Integrity | You should not place yourself under any financial or other obligation to outside individuals or organisations that might influence you in the performance of your official duties. |
| Objectivity | In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, you should make choices on merit. |
| Accountability & Stewardship | You are accountable for your decisions and actions to the public. You have a duty to consider issues on their merits, taking account of the views of others. You must ensure that the council uses its resources prudently and in accordance with the law. |

Openness	You should be as open as possible about your decisions and actions, giving reasons for your decisions and restricting information only when the wider public interest clearly demands.
Honesty	You must declare any private interests relating to your public duties and take steps to resolve any conflicts arising in a way that protects the public interest.
Leadership	You should promote and support these principles by leadership and example, and maintain the public's trust and confidence in the integrity of the council and its Elected Members in conducting public business.
Respect	You should show respect for all other Elected Members, council employees and your constituents, treating them with courtesy at all times.

A new Commission for the Ethical Standards in Public Life was established in April 2011. This merged the offices of the Commissioner for Public Appointments in Scotland, the Chief Investigating Officer and the Parliamentary Standards Commissioner. Documents published by the Standards Commission Scotland, such as 'Ethical Standards in Public Life' and 'The Councillors' Code of Conduct', are the responsibility of this new merged body.

Leadership will be essential in creating the structures, systems, procedures and culture that will successfully embed governance into the day to day workings of your council. **Leadership rests with all Elected Members, not just those in decision-making positions.** Leadership in this context is about:

- ensuring that your council has clear aims, outcomes and priorities in place;
- making sure the right resources are in place to deliver the aims, outcomes and priorities;
- scrutinising and monitoring how well delivery is taking place and how well services are performing and whether the aims, outcomes and priorities of the Council are being achieved;
- ensuring your council has clear systems and processes in place for policy development, implementation, review, scrutiny, risk management, etc;
- ensuring your council has a transparent decision-making process in place, where decisions are based on sound rationale, evidence, good judgment and pragmatism but within the context of political beliefs, and take account of community needs and priorities and budgets;
- being accountable for decisions that you take;
- being a good role model for others - in terms of good governance, your attitude and behaviour can have a strong impact on the council's reputation;
- understanding the differences in the roles and responsibilities of Elected Members and officers and getting the member/officer relationship right by building strong relationships with senior officers based on open communication, cooperative working and trust. It is the job of officers to advise and inform you - they are expert across the range of services the council delivers and it is important that you are able to take their advice on trust;

- working across political boundaries to foster communication and encourage cooperation where appropriate;
- acting as the public face of the council - you can promote clear messages, maintain a dialogue with your constituents and help to create a positive perception that the council listens to and acts on behalf of local people;
- ensuring people get the benefits from the services that Elected Members intended;
- ensuring communities find out about the council's performance in a way that is useful to them.

What is good practice?

In 2004, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office for Public Management established an Independent Commission on Good Governance in Public Services, to develop a common code and common set of principles for good governance across the public services. The Commission published six core principles that should underpin the governance arrangements of all public bodies.

CIPFA developed a framework for 'Delivering Good Governance in Local Government', which adapted the six core principles from the Good Governance Standard for Public Services for the local authority context. The principle of leadership has been expanded to emphasise the role of authorities in 'leading' their communities and therefore this concept 'overarches' the other principles. Greater emphasis has been placed on scrutiny, and the principles have been developed to take greater account of the political regime in which local authorities operate.

The main principle underpinning the development of the Framework was that local government was shaping its own approach to good governance. In 2007, CIPFA and SOLACE issued guidance notes for Scottish local authorities which are intended to support local authorities to comply with the Framework. The Revised Framework builds on recent governance work in both the public and the private sector and in particular the Good Governance Standard. The Framework also comprises best practice objectives that should provide the basis for each local authority to develop and maintain a local code of governance reflecting its type, size, functions and nature.

It should be stressed that local authorities will need to assess how they can demonstrate, through documentary evidence and action, that their governance practices meets 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 is to score the authority's arrangements.

Governance statement

The annual governance statement is the formal statement that recognises, records and publishes authorities' governance arrangements as defined in the CIPFA/SOLACE Governance Framework. The statement requires to be signed off by the most senior officer (Chief Executive) and the most senior member (Council Leader). Clearly the signatories must be satisfied that the document is supported by reliable evidence.

The work on the governance statement should be co-ordinated by a designated working group of the local authority which should report its findings to the designated committee of the authority.

The Scottish Government may be considering introducing revised Accounts and Audit Regulations which could prescribe a requirement for a governance statement.

Regulation 4 of the English Accounts and Audit Regulations 2003 required an audited body to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control (SIC) each year with the authority's financial statements. Given this emerging agenda, the CIPFA/LASAAC Local Authority Code Board, responsible for setting the accounting rules for local authorities, took the decision to place a requirement on local government across the UK to produce a Statement of Internal Financial Control. The CIPFA/SOLACE Governance Framework recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement.

Key issues/questions to consider

The CIPFA/SOLACE ‘Delivering Good Governance in Local Government Framework’ identifies six key principles for effective governance in the local authority context. We will discuss each of these in turn and highlight some key questions you may wish to consider.

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

Good governance is about exercising strategic leadership by developing and clearly communicating the authority’s purpose, vision and its intended outcomes for citizens and service users. Key questions you may wish to consider include:

- Does your council have a clearly defined purpose and vision for the local area, which is effectively communicated?
- Do you have a good understanding of your council’s intended outcomes for citizens and service users?
- Do you scrutinise service performance and delivery to ensure that customers receive a high quality of service?
- Are effective arrangements in place to identify and deal with any failures in service delivery?
- Are you confident that the council makes best use of resources and that tax payers and service users receive excellent value for money?

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

Good governance is about ensuring there is effective leadership across the authority, being clear about the roles of officers and members and ensuring that a constructive working relationship exists between officers and members. Key questions you may wish to consider include:

- Do you have a clear understanding of the roles and responsibilities of Elected Members and officers and the differences in these roles?
- Do you have a clear understanding of the roles of Statutory Officers?
- Do you have effective working relationships with officers based on trust and cooperation?

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

Good governance is about ensuring elected members and officers exercise leadership by behaving in

ways that exemplify high standards of conduct and effective governance. Key questions you may wish to consider include:

- Do you behave in ways that exemplify high standards of conduct and effective governance?
- Is there a Members/officers code of conduct in place?
- Do you put organisational values into practice by acting out these values as part of your day to day functions in public life?

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

Good governance means being rigorous and transparent about how decisions are taken and managing risk. Key questions you may wish to consider include:

- Does the council have an effective scrutiny function which encourages constructive challenge and enhances the council's performance overall?
- Do officers act on the outcome of constructive scrutiny?
- Do you have access to good quality information, advice and support to enable you to assess whether services are delivered effectively and are what the community wants/needs?
- Does the council have an effective risk management system in place?

Principle 5: Developing the capacity and capabilities of Members and officers to be effective.

Good governance means making sure that Elected Members and officers have the skills, knowledge, experience and resources they need to perform their roles well. Key questions you may wish to consider include:

- Do you have the skills, knowledge, experience and resources you need to perform your role well?
- Do you feel adequately supported by the council in fulfilling your governance responsibilities effectively?
- Are you provided with opportunities to evaluate how you perform in your role?

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

Good governance means exercising leadership through a robust scrutiny function which effectively engages local people and all relevant stakeholders and develops constructive accountability relationships. Key questions you may wish to consider include:

- Are you clear to whom you are accountable and for what?
- Does the council take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery?

Key messages and learning points

- Good corporate governance is an essential element in the efficient running of all organisations.
- Corporate governance is concerned with the structures and process for decision-making and accountability, controls and behaviour at the top of organisations.
- The focus of corporate governance in local government in recent years has been on ensuring that risk is properly assessed and managed and there are adequate controls in place, service delivery and performance is effectively scrutinised and reported, there is a focus on the needs of the community and high standards of conduct are promoted.
- The role of those who govern the organisation (Elected Members), as opposed to manage it (Chief Officers) is to: make sure that clear aims, outcomes and priorities are in place; ensure the right resources are in place to achieve these aims, outcomes and priorities; scrutinise and monitor the delivery of services to ensure that outcomes are achieved; and ensure the whole way the council operates is transparent and accountable back to the communities that elected them in the first place.
- Ethical governance is increasingly important at a time when public services are heavily scrutinised and public opinion is formed not only on what Elected Members do but how they conduct themselves whilst in office.
- Leadership will be essential in creating the structures, systems, procedures and culture that will successfully embed governance into the day to day workings of your council. Leadership rests with all Elected Members, not just those in decision-making positions.
- The CIPFA/SOLACE ‘Delivering Good Governance in Local Government Framework’ identifies six key principles for effective governance in the local authority context.
 - focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
 - Members and officers working together to achieve a common purpose with clearly defined functions and roles;
 - promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
 - taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
 - developing the capacity and capabilities of members and officers to be effective;
 - engaging with local people and other stakeholders to ensure robust public accountability.

Further support and contacts

The UK Corporate Governance Code can be accessed at:

http://www.frc.org.uk/documents/pagemanager/Corporate_Governance/UK%20Corp%20Gov%20Code%20June%202010.pdf

You may also find it useful to access the CIPFA website at: <http://www.cipfa.org.uk/scotland/>

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The Improvement Service is devoted to improving the efficiency, quality and accountability of public services in Scotland through learning and sharing information and experiences.

