

WIRRAL COUNCIL

CORPORATE GOVERNANCE COMMITTEE

18 JANUARY 2012

SUBJECT:	CODE OF CORPORATE GOVERNANCE
WARD/S AFFECTED:	ALL
REPORT OF:	CHIEF EXECUTIVE
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR STEVE FOULKES
KEY DECISION?	YES

1.0 EXECUTIVE SUMMARY

1.1 This report presents the conclusions of a review of the Code of Corporate Governance for Wirral. The review has been undertaken as part of the work programme agreed by Cabinet of 16 November 2011. As the result of the review, a draft amended Code is proposed in Appendix A, for the consideration of the Committee.

2.0 RECOMMENDATIONS

2.1 That the amended Code of Corporate Governance attached in Appendix A to this report be agreed and its adoption recommended to Council.

2.2 That the recommendations contained in 9.3 – 9.5 are agreed.

3.0 REASONS FOR RECOMMENDATIONS

3.1 A review of the current Code of Corporate Governance was agreed by Cabinet of 16 November 2011 as part of a programme of action to address failures of corporate governance highlighted in a supplementary report to Cabinet undertaken by AKA Ltd, (Klonowski, 2011). The review has been undertaken and changes to the Code of Governance are recommended.

4.0 BACKGROUND AND KEY ISSUES

4.1 The supplementary report provided to Council by AKA Ltd, (Klonowski, 2011), highlighted failures in Wirral council's corporate governance in respect of "hard" organisational basics and "soft" cultural issues (Klonowski, 2011, page 2). The Klonowski Report was considered by the Corporate Governance Committee of the Council on 26 October 2011, and it was agreed to undertake a programme to achieve

improvements in corporate governance. Subsequently, Cabinet of 16 November 2011, approved ten work streams, one of which is to review and refresh the Code of Corporate Governance. The resolution added an additional objective to the original project initiation document as follows:

“Ensure issues raised in the Annual Governance Statement are addressed within this process, and that this includes issues raised within previous Annual Governance Statements and action taken to address them.”

- 4.2 This report is the review of Wirral’s current code (Appendix B) and does not include consideration of any alterations of council policy or practice to make operational the principles of good governance referred to below. The latter consideration is recommended to take place as part of the production of the report referred to in 9.3 and in the Annual Governance Statement for March 2012. The additional objective above will be considered as part of the Statement.
- 4.3 The objectives set for the KLOE were identified in the project initiation document and are as follows:
 - a. To develop and implement a code of Corporate Governance which is fit for purpose – enforceable, enforced, communicated, understood and underpin the workings of a modern organisation – by April 2012.
 - b. Ensure issues raised in the Annual Governance Statement are addressed within this process.
 - c. From April 2012 develop and implement a review process.

5.0 THE REVIEW

- 5.1 The following work has been undertaken as part of the review:
 - i. A literature search to identify key documents in relation to public service governance. Some of the documents found are referenced below.
 - ii. A web search for example codes of corporate governance from other local authorities
 - iii. Comparison of the practice in other local authorities and in particular those considered models of best practice.
 - iv. Consideration of the extent to which the Wirral code and its implementation serves to demonstrate compliance with the principles of good governance.
 - v. Formulation of a refreshed code of corporate governance taking into account conclusions from the above for consideration for adoption by Cabinet.

6.0 DEFINING CORPORATE GOVERNANCE

6.1 In 2001, CIPFA (The Chartered Institute of Public Finance and Accountancy), and SOLACE (Society of Authority Chief Executives), responded to the need to bring together governance principles identified by Cadbury (Cadbury Report, 1992) and Nolan (Lord Nolan, 1995) and the then Department of Environment, Transport and the Regions, (DETR) and formed a single framework of good governance for local government: "*Corporate Governance in Local Government- A Keystone for Community Governance: Framework*". Corporate Governance is described as being:

"...about how local government bodies ensure that they are doing the right things, in the right way for the right people, in a timely, inclusive, open honest and accountable manner".

It comprises the systems and processes, and cultures and values by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities."

6.2 The CIPFA/SOLACE, framework is intended to be followed as best practice for developing and maintaining a local code of governance and making adopted practices open and explicit. It identifies six core principles of corporate governance as follows:

- i. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- ii. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- iii. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- iv. Taking informed and transparent decisions which are subject to effective scrutiny and managing risks;
- v. Developing the capacity and capability of members and officers to be effective; and
- vi. Engaging with local people and other stakeholders to ensure robust public accountability.

With each of the principles are a number of supporting principles.

- 6.3 The CIPFA/SOLACE, Guidance to the application of the Framework (CIPFA/SOLACE, 2007), provides advice to local authorities in England in respect of its use to underpin a local code of corporate governance and to assist in the process of review. It is adopted as the basis for all of the codes of corporate governance for the local authority examples considered during the review. (See Appendix C). It is also the basis of the current Wirral code.
- 6.4 In June 2009, CIPFA produced its, Statement on the role of the Chief Financial Officer (CFO) in Public Service Organisations, (CIPFA, 2009). Its purpose was to strengthen governance and financial management across the public services by setting out five principles that define the core activities and behaviours that belong to the role of the CFO. It also considers the governance arrangements that should be demonstrated to show compliance.
- 6.5 In March 2010, CIPFA/SOLACE issued; the “Application Note to Delivering Good Governance in Local Government: a Framework”. The note gives in respect of the application of the Statement referred to above (in 6.4) to the CIPFA/SOLACE framework described in 6.3. The Application describes how the governance arrangements required to support the principles in the CFO statement and build on the governance requirements that need to be reflected in an authority’s local code as set out in the CIPFA/SOLACE Framework and guidance note. The amendments in the application note have not until now been incorporated into the Wirral code although the Head of Legal and Democratic Services has given some consideration as to how it will affect the requirements for governance.

7.0 THE LOCAL CODE OF GOVERNANCE

- 7.1 The code of corporate governance is a key document used by local authorities (and the rest of the public sector) to codify the arrangements for achieving good corporate governance. That is, for local authorities in England, the basis to demonstrate that the principles of the CIPFA/SOLACE Framework are being maintained. Whilst the code of corporate governance sets the commitment to the framework, compliance is reliant upon suitable policies and effective systems to embed and monitor the principles and a culture that promotes adherence to the requirements imposed.
- 7.2 The “Application Note” described in 6.5, which, as an amendment to the original CIPFA/SOLACE framework and guidance note, has been taken into account as part of the updated Wirral Code of Corporate Governance (Appendix A).

8.0 LOCAL AUTHORITY APPROACHES TO THE CODE OF CORPORATE GOVERNANCE

8.1 As part of this KLOE examples of the codes used by other local authorities were examined. A range of authorities were selected, some on the basis that they had been referred to in the CIPFA/SOLACE guidance, others are Merseyside authorities. (Appendix C has list of those examined).

8.2 The review of these documents found the following:

- i. All of the authorities (including Wirral) used the CIPFA/Solace Framework as the basis of their code. All gave some level of commitment to its principles.
- ii. The more minimal approach is adopted by Birmingham where a commitment to the core principles of the Framework is followed by a list of supporting documents.
- iii. Other authorities (E.g. St Helens, Wakefield) in addition to stating commitment to the CIPFA/SOLACE Framework also make reference to Section 5 of the Guidance document which describes the requirements that need to be reflected in a local code of governance.
- iv. The current Wirral code is different to most of the others examined in that it attempts to provide explanations of how Wirral complies with the principles of the CIPFA/SOLACE Framework. Other local authorities simply point to council documents suggested in Section 5 of the CIPFA/SOLACE Guidance as sources of evidence of compliance.
- v. Other local authorities use the “Annual Governance Statement” (mandatory) to show how they have reviewed compliance with the Framework.
- vi. The current commentary on compliance in the Wirral Code contains some references to documents that are no longer valid (e.g. Local Area Agreement).

9.0 CONCLUSIONS AND RECOMMENDATIONS

9.1 The Wirral code is based upon on the “core principles” and “supporting principles” of the CIPFA/SOLACE Framework (CIPFA/SOLACE, 2007). This Framework is the basis of best practice for local authorities in England and was used as the basis for all of the codes examined under this review. The current Wirral code does not take account of the application note (CIPFA/SOLACE, 2010) and should be amended to account for the amendments to the original framework that it contains.

- 9.2 The Wirral Code differs from most of the other authorities (except e.g. Bristol, see Appendix C) reviewed in providing a commentary to describe how the Council complies with the CIPFA/ SOLACE principles. The effectiveness of the Council's compliance with these principles is evaluated on an annual basis by the Council's Internal Audit service, in accordance with the CIPFA/ SOLACE Framework, and the results of this review of effectiveness are the basis for the Annual Governance Statement. However, whilst the annual review has identified weaknesses in the Council's compliance with the principles, the Code and the evidence contained within it has not been subject to continuous review and revised to reflect these weaknesses and the action necessary to correct them. These weaknesses are also clear from the Klonowski Report. Therefore, there is a risk that the Code seeks to demonstrate compliance with the principles by utilising evidence for which there are identified weaknesses. It is therefore suggested that the practice of including the commentary is discontinued until such time as robust processes have been established for the ongoing review of effectiveness as part of management practice, and for addressing as a matter of routine the weaknesses identified as part of the formal annual review.
- 9.3 A system of thorough audit and review of governance is essential to meet the requirements of the era of self regulation and peer review that local authorities are entering. It is recommended that the Internal Audit Service provide a report to the Corporate Governance Committee on arrangements for securing good corporate governance and the role of the Annual Governance Statement.
- 9.4 The documents in the current code appear not to be subject to a controlled version that is linked to a published copy. It is therefore recommended that consideration be given to a project to apply the "Documentum" system (The Council's existing document management system.) to create a single source for corporate governance documentation. This will enable document control and facilitate monitoring of review requirements
- 9.5 The recommended draft Code of Corporate Governance is attached in Appendix A (a copy of the current code is attached as Appendix B). It removes the commentary on compliance, adds the requirements of the CIPFA/SOLACE application note and includes the information applicable to each framework principle from Section 5 of the Guidance. The code commits the Council to the specific requirements of the Framework. As previously stated the commentary that the current document contains to indicate how Wirral complies with good governance principles has been removed on the basis that it relies on evidence that has clear weaknesses (see 9.2 above)

10.0 RELEVANT RISKS

- 10.1 The Code of Corporate Governance is a key document as it sets out the Council's commitment to the principles on which good corporate governance can be achieved. It should drive the Council's governance arrangements and is the basis upon which those arrangements are reviewed for the Annual Governance Statement. A failure to make operational the principles in the Code leaves the Council potentially open to significant financial, reputational and service delivery risks.

11.0 OTHER OPTIONS CONSIDERED

- 11.1 The recommendation of this report is based upon the conclusions of the review. The current Code was found to require amendment because it did not account for a recent amendment of the CIPFA/SOLACE Framework.

12.0 CONSULTATION

- 12.1 This report has been subject to consultation with Director of Finance, Director of Law, Human Resources and Asset Management

13.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 13.1 The Code of Corporate Governance includes commitments to engage effectively with local people and all institutional stakeholders

14.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 14.1 The operational implementation of the Code of Corporate Governance is resourced through existing budget allocations.

15.0 LEGAL IMPLICATIONS

- 15.1 The Code of Corporate Governance contains a commitment to a principle and supporting principle concerning the use of the Council's legal powers.

16.0 EQUALITIES IMPLICATIONS

16.1 The Code of Corporate Governance is a commitment to nationally recognised principles. The policies and processes that make up the arrangements for compliance will be subject to equality impact assessments.

16.3 Equality Impact Assessment (EIA)

(a) Is an EIA required? No

(b) If 'yes', has one been completed?

17.0 CARBON REDUCTION IMPLICATIONS

17.1 There are none arising directly out of this report.

18.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

18.1 There are none arising directly out of this report.

FNCE/8/12

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APPENDICES

Appendix A: Recommended Draft Code

Appendix B: Existing Code of Corporate Governance

Appendix C: List of other local authority codes

REFERENCES

1. Anna Klonowski, (2011), *Wirral Metropolitan Borough Council's Corporate Governance Arrangements: Refresh and Renew*, AKA Ltd
2. CIPFA/SOLACE, (2007), *Delivering good Governance in Local Government: Guidance note for English Authorities*, London.
3. Wirral Metropolitan Borough Council, (DATE), Code of Corporate Governance
4. Cadbury Committee, *Report of the Committee on the Financial Aspects of Corporate Governance* (the Cadbury Report), December 1992.
5. Lord Nolan and his Committee, *First Report of the Committee on Standards in Public Life*, HMSO, 1995.
6. CIFA/SOLACE, *Corporate Governance in Local Government- A Keystone for Community Governance: Framework*, (2001).