



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
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Cabinet	
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CODE OF CORPORATE GOVERNANCE

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1. Summary

Shropshire Council is committed to the principles of good corporate governance. The Council's Code of Corporate Governance was developed using the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance. This guidance has been refreshed following publication of a new governance framework for local authorities, police and fire authorities: Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) published in April for application for the 2016/17 year

Compliance with the Governance Code supports the Council's review of the effectiveness of its system of internal controls as required by the Accounts and Audit Regulations 2015. This in turn informs the Annual Governance Statement which accompanies the Annual Statement of Accounts, signed by the Leader of the Council and the Head of Paid Service.

The Cabinet, in consultation with the Audit Committee, is responsible for approving this Code. The Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by reviewing it annually. Following comment and endorsement from Audit Committee, this report seeks approval to the Code from Audit Committee and Cabinet.

2. Recommendations

Audit Committee

The Committee is asked to consider and recommend for approval to the Cabinet, with appropriate comment, the revised Code of Corporate Governance (Part 5 Constitution) contained in **Appendix A**.

Cabinet

Cabinet are asked to consider and approve the revised Code of Corporate Governance contained in **Appendix A**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Corporate Governance is part of the overall internal control framework and contributes to the Council's strong governance arrangements. The Code complies with best practice and legislation.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no environmental consequences of this proposal.

4. Financial Implications

- 4.1 There are no financial implications arising from this report.

5. Background

- 5.1 The Shropshire Council Code of Governance forms part of the Council's Constitution. Legal Services have completed a review of the code following publication of a new governance framework for local authorities, police and fire authorities - Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) published in April for application for the 2016/17 year.
- 5.2 The framework contains the elements that authorities are required to include in their annual governance statement. Different parts of the UK have different regulations, but they all mandate an annual statement on governance or internal control. The adoption of the framework is also a requirement of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (CIPFA/LASAAC, 2016).
- 5.3 The new framework is based on the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) as developed by CIPFA and Solace supported by a UK wide steering group made up of local

government practitioners and stakeholders. The framework includes a new definition of governance which stresses how good governance is essential in enabling an organisation achieve its goals:

- Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.
- To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their organisation's objectives whilst, at all times, acting in the public interest.
- Acting in the public interest implies primary consideration of the benefits for society, which *should result in positive outcomes for service users and other stakeholders.*

5.4 There are seven principles of governance that will enable organisations, public sector partnerships and combined authorities to achieve their outcomes while working in the public interest. The principles are further supported by examples of behaviours and actions that demonstrate what good governance should look like in practice. The principles are:

- *Principle 1: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law*
- *Principle 2: Ensuring openness and comprehensive stakeholder engagement*
- *Principle 3: Defining outcomes in terms of sustainable economic, social, and environmental benefits*
- *Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes*
- *Principle 5: Developing the entity's capacity, including the capability of its leadership and the individuals within it*
- *Principle 6: Managing risks and performance through robust internal control and strong public financial management*
- *Principle 7: Implementing good practices in transparency, reporting, and audit to deliver effective accountability*

5.5 During 2016/17 authorities are required to formally adopt the new framework and, in doing this, Shropshire Council's Code of Governance has been reworded to reflect the key changes in the guidance. The Code, alongside the Annual Governance Assurance framework reported to the June Audit Committee, helps to demonstrate how the Council's values, constitution and policies align to the new principles of governance.

5.6 The Council will refer to this refreshed Code of Governance when undertaking its annual review and publishing its governance statement. The governance statement for 2016/17 will relate to this new framework.

5.7 The Cabinet, in consultation with the Audit Committee is responsible for approving this Code and the Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by reviewing it annually.

5.8 The Monitoring Officer and Head of Finance, Governance and Assurance are responsible for ensuring an annual review of compliance with this Code and Internal Audit will independently audit the process. The results of this review will

be included in the Head of Audit's annual report and will form part of the overall assurance for the Annual Governance Statement signed by the Leader and Chief Executive.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA / SOLACE: Guidance Note – Delivering Good Governance in Local Government – Framework.

CIPFA/SOLACE: Application Note to Delivering Good Governance in Local Government: a Framework 2010.

CIPFA: Delivering Good Governance in Local Government: Framework Addendum 2012

CIPFA/ SOLACE: Delivering Good Governance in Local Government Framework 2016 edition

CIPFA/ SOLACE: Delivering Good Governance in Local Government Guidance notes for English Authorities 2016 edition

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (CIPFA/LASAAC, 2016)

International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014)

Cabinet Member (Portfolio Holder)

Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

Local Member All

Appendices Code of Corporate Governance.

Part five - Code of Corporate Governance

Introduction

Shropshire Council is committed to the principles of good corporate governance and to this end has revised and adopted a new Code of Corporate Governance as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) document entitled "Delivering Good Governance in Local Government – Framework"¹. The Shropshire Code of Corporate Governance forms part of the Constitution and applies to all aspects of the Council's business.

Corporate governance in Shropshire is the systems and processes, and culture and values, by which we, the local authority, direct, monitor and control our functions and account to, engage with and, where appropriate, lead our community. Put simply, good governance enables us to do the right things in the right way, for the right people in a timely, inclusive, open and accountable manner.

The Council is dependent on our members and staff delivering excellent corporate governance which requires them to conduct themselves in accordance with the high standards expected by the citizens of Shropshire.

The fundamental principles of corporate governance are openness and inclusivity, integrity and accountability. The CIPFA/SOLACE document identifies seven core principles supported by numerous sub principles to the corporate governance framework. Our code includes the documents, systems, processes and actions we undertake to fulfil our commitment to and compliance with the code.

The Cabinet, in consultation with the Audit Committee is responsible for approving this Code and the Chief Executive and Monitoring Officer are responsible for ensuring that it is kept up to date by reviewing it annually.

The Monitoring Officer and Head of Finance, Governance and Assurance are responsible for ensuring an annual review of compliance with this Code and Internal Audit will independently audit the process. The results of this review will be included in the Head of Audit's annual report and form a part of the overall assurance for the Annual Governance Statement signed by the Leader and Chief Executive.

Principle 1 Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes

¹ 2016 Edition

accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

1.1 Behaving with integrity

- 1.1.1 Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation
- 1.1.2 Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)
- 1.1.3 Leading by example and using the above standard operating principles or values as a framework for decision making and other actions
- 1.1.4 Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively

1.2 Demonstrating strong commitment to ethical values

- 1.2.1 Seeking to establish, monitor and maintain the organisation's ethical standards and performance
- 1.2.2 Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation
- 1.2.3 Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values
- 1.2.4 Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

1.3 Respecting the rule of law

- 1.3.1 Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations
- 1.3.2 Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their

responsibilities in accordance with legislative and regulatory requirements

- 1.3.3 Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders
- 1.3.4 Dealing with breaches of legal and regulatory provisions effectively
- 1.3.5 Ensuring corruption and misuse of power are dealt with effectively

Principle 2 Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

2.1 Openness

- 2.1.1 Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness
- 2.1.2 Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided
- 2.1.3 Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear
- 2.1.4 Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action

2.2 Engaging comprehensively with institutional stakeholders²

- 2.2.1 Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

² institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.

2.2.2 Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively

2.2.3 Ensuring that partnerships are based on:

- trust
- a shared commitment to change
- a culture that promotes and accepts challenge among partners

and that the added value of partnership working is explicit

2.3 Engaging with individual citizens and service users effectively

2.3.1 Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes

2.3.2 Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement

2.3.3 Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs

2.3.4 Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account

2.3.5 Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity

2.3.6 Taking account of the impact of decisions on future generations of tax payers and service users

Principle 3 Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

3.1 Defining outcomes

- 3.1.1 Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions
- 3.1.2 Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer
- 3.1.3 Delivering defined outcomes on a sustainable basis within the resources that will be available
- 3.1.4 Identifying and managing risks to the achievement of outcomes
- 3.1.5 Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available

3.2 Sustainable economic, social and environmental benefits

- 3.2.1 Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision
- 3.2.2 Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints
- 3.2.3 Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs
- 3.2.4 Ensuring fair access to services

Principle 4 Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

4.1 Determining interventions

- 4.1.1 Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided
- 4.1.2 Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts

4.2 **Planning interventions**

- 4.2.1 Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets
- 4.2.2 Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered
- 4.2.3 Considering and monitoring risks facing each partner when working collaboratively, including shared risks
- 4.2.4 Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances
- 4.2.5 Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured
- 4.2.6 Ensuring capacity exists to generate the information required to review service quality regularly
- 4.2.7 Preparing budgets in accordance with objectives, strategies and the medium term financial plan
- 4.2.8 Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

4.3 **Optimising achievement of intended outcomes**

- 4.3.1 Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints
- 4.3.2 Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term

- 4.3.3 Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage
- 4.3.4 Ensuring the achievement of 'social value' through service planning and commissioning

Principle 5 Developing the entity's capacity, including the capability of its leadership and the individuals within it

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

5.1 Developing the entity's capacity

- 5.1.1 Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness
- 5.1.2 Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently
- 5.1.3 Recognising the benefits of partnerships and collaborative working where added value can be achieved
- 5.1.4 Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources

5.2 Developing the capability of the entity's leadership and other individuals

- 5.2.1 Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained

- 5.2.2 Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body
- 5.2.3 Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority
- 5.2.4 Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:
- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
 - ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
 - ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
- 5.2.5 Ensuring that there are structures in place to encourage public participation
- 5.2.6 Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections
- 5.2.7 Holding staff to account through regular performance reviews which take account of training or development needs
- 5.2.8 Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Principle 6 Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a

performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

6.1 Managing risk

- 6.1.1 Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making
- 6.1.2 Implementing robust and integrated risk management arrangements and ensuring that they are working effectively
- 6.1.3 Ensuring that responsibilities for managing individual risks are clearly allocated

6.2 Managing performance

- 6.2.1 Monitoring service delivery effectively including planning, specification, execution and independent post implementation review
- 6.2.2 Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook
- 6.2.3 Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible
- 6.2.4 Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement
- 6.2.5 Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

6.3 Robust internal control

- 6.3.1 Aligning the risk management strategy and policies on internal control with achieving objectives

- 6.3.2 Evaluating and monitoring risk management and internal control on a regular basis
- 6.3.3 Ensuring effective counter fraud and anti-corruption arrangements are in place
- 6.3.4 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
- 6.3.5 Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body:
 - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
 - that its recommendations are listened to and acted upon

6.4 Managing data

- 6.4.1 Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- 6.4.2 Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies
- 6.4.3 Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

6.5 Strong public financial management

- 6.5.1 Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance
- 6.5.2 Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Principle 7 Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

7.1 Implementing good practice in transparency

- 7.1.1 Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate
- 7.1.2 Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

7.2 Implementing good practices in reporting

- 7.2.1 Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way
- 7.2.2 Ensuring members and senior management own the results reported
- 7.2.3 Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)
- 7.2.4 Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate
- 7.2.5 Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations

7.3 Assurance and effective accountability

- 7.3.1 Ensuring that recommendations for corrective action made by external audit are acted upon
- 7.3.2 Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon
- 7.3.3 Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations
- 7.3.4 Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement

7.3.5 Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met