



HM TREASURY

CabinetOffice

Corporate governance in central government departments:

Code of good practice 2011

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Foreword

Good corporate governance is fundamental to any effective organisation and is the hallmark of any well-managed corporate entity. This Code seeks to promote good corporate governance in central government departments.

When the original Code was first published in July 2005 (the 2005 Code), it was the first time the principles of corporate governance had been codified in central government. Those principles are now largely common practice. This Code builds on the 2005 Code by incorporating recent changes in best practice in the public, private and charity sectors. It sets out the role and functions of departmental boards, including how government departments will be business-like through drawing on the expertise of senior business leaders who sit on the boards as non-executive board members. It also incorporates other aspects of government policy, including that targeted at greater ministerial engagement with departmental business.

The focus of the Code is on ministerial departments. Smaller departments are encouraged to adopt the practices set out in the Code wherever this is relevant and practical.

The Code concentrates on principles. It focuses on the role of boards, since these provide leadership. Relevant government policy on how the principles should be implemented is clearly identified. Elsewhere, departments should apply the principles and supporting provisions in the Code to suit their business needs. Exceptionally, departments may choose to explain and describe what alternative governance measures have been put in place with similar effect to a principle or supporting provision. *Corporate governance in central government departments: Code of good practice – Guidance* (Guidance), published alongside this Code provides practical advice for departments in making these decisions.

Looking ahead

The Code is intended to be a living document and will evolve in line with best practice. As a number of the policy and provisions contained in this Code represent marked change from the 2005 Code, these arrangements will be kept under review to ensure that they continue to help facilitate good governance in departments

The review of the Code identified a number of perceived shortcomings in governance arrangements that were outside of the review's scope. These shortcomings should be addressed in order to better enable effective governance. They include:

- Issues around the accountability of permanent secretaries, including their special and unique responsibilities to parliament as AOs. Permanent secretaries are accountable in varying degrees to their ministers, to the Head of the Home Civil Service and to parliament. The Code seeks to enhance permanent secretaries' accountability to their respective ministers, through the revised board arrangements, and to provide stronger mechanisms for assessing their performance. However, the steering group felt that further study was needed on clarifying permanent secretary accountabilities;
- Issues around the corporate leadership at the centre of government and the need for greater clarity of roles. One particular issue concerns the governance of priorities that involve multiple government departments. Currently, corporate leadership operates largely by consensus, although the creation of the Efficiency and Reform

Group will lead to greater central controls over some aspects of departments' business. The role of the Head of the Home Civil Service in providing leadership to the civil service, and his or her relationship to permanent secretaries, could be more clearly defined. The appointment of a government lead non-executive board member may help strengthen the role of the centre in corporate leadership. However, the steering group felt that further thought was needed on the appropriate role of the centre.

There is scope to develop a Code of Good Practice for non-ministerial departments and for arm's-length bodies in the near future. Such a Code would need to be commensurate with the size, status and legal framework of the organisation.

We hope that this Code provides further support to good governance within the public sector.



Danny Alexander
Chief Secretary to the Treasury



Francis Maude
Minister for the Cabinet Office

Enhanced Departmental Boards: Protocol

Government Departments are not the same as for-profit corporations, but they face many similar challenges. They need to be business-like. They can do this by tapping into the expertise of senior leaders with experience of managing complex organisations in the commercial private sector. These experts will provide challenge and support through their membership of Departmental Boards, which will provide the collective strategic and operational leadership of Government Departments.

“Secretaries of State should chair their departmental board. Boards should comprise other Ministers, senior officials and non-executive board members, largely drawn from the commercial private sector and appointed by the Secretary of State in accordance with Cabinet Office guidelines. The remit of the board should be performance and delivery, and to provide the strategic leadership of the department.”

- Excerpt from Ministerial Code

Composition and remit

The Boards will be balanced, with roughly equal numbers of Ministers, senior civil servants, and non-executives from outside government. They will be chaired by the Secretary of State and meet on at least a quarterly basis. However, best practice is that Boards should meet more frequently.

Boards are advisory in the sense that they will provide advice to the department on issues within their remit, such as strategy and the deliverability of policies. They are supervisory in the sense that they scrutinise reporting from the department on performance, and challenge the department on how well it is achieving its objectives.

Policy will be decided by Ministers alone, with advice from officials. Boards will give advice and support on the operational implications and effectiveness of policy proposals, focusing on getting policy translated into results. They will operate according to recognised precepts of good corporate governance in business:

- **Leadership** – articulating a clear vision for the Department and give clarity about how policy activities contribute to achieving this vision, including setting risk appetite and managing risk;
- **Effectiveness** – bringing a wide range of relevant experience to bear, including through offering rigorous challenge and scrutinising performance;
- **Accountability** – promoting transparency through clear and fair reporting;
- **Sustainability** – taking a long-term view about what the Department is trying to achieve and what it is doing to get there.

Boards advise on, and supervise, five main areas:

- **Strategic Clarity** – setting the vision and/or mission and ensuring all activities, either directly or indirectly, contribute towards it; long-term capability and horizon scanning, ensuring strategic decisions are based on a collective understanding of

policy issues; using outside perspective to ensure that Departments are challenged on the outcomes;

- **Commercial Sense** – approving the distribution of responsibilities; advising on sign-off of large operational projects or programmes; ensuring sound financial management; scrutinising the allocation of financial and human resources to achieve the plan; ensuring organisational design supports attaining strategic objectives; setting the Department’s risk appetite and ensuring controls are in place to manage risk; evaluation of the board and its members, and succession planning;
- **Talented People** – ensuring the Department has the capability to deliver and to plan to meet current and future needs;
- **Results Focus** – agreeing the operational business plan, including strategic aims and objectives; monitoring and steering performance against plan; scrutinising performance of sponsored bodies; and setting the Department’s standards and values;
- **Management Information** – ensuring clear, consistent, comparable performance information is used to drive improvements.

The board may choose for its committees to carry out some of its activities. As a minimum there should be committees responsible for Audit and Risk (the responsibilities of which will include reviewing the comprehensiveness of assurances and integrity of financial statements), and Nominations and Governance (the responsibilities of which will include ensuring there are satisfactory systems for identifying and developing leadership and high potential, scrutinising the incentive structure and succession planning for the board and the senior leadership of the Department, and scrutinising governance arrangements).

Board members’ roles and responsibilities

All Board members should uphold the seven principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

The **Chair of the Board** will normally be the Secretary of State (the Lead Non-Executive Board Member, or another ministerial Board member, may occasionally deputise if necessary). He or she will maintain a high standard of discussion and debate, helping to steer the Department by facilitating collective working and ensuring that systems are in place to provide Board members with the support they need to carry out their role effectively, such as providing them with timely, relevant evidence on which to base their decisions. Where possible, Board membership will include Ministers from both coalition parties. Where this is not possible, Secretaries of State will consider how coalition interests can best be reflected in Board membership.

Each Board will have a **Lead Non-Executive Board Member**, who will meet regularly with other Non-Executive Board Members to ensure their views are understood and that the Secretary of State is made aware of any concerns (including through ensuring that the non-execs meet alone with the Secretary of State from time to time). The Lead Non-Executive Board Member will support the Secretary of State in his or her role as Chair of the Board and liaise with the Government-wide Lead Non-Executive Board Member.

Non-Executive Board Members, appointed by the Secretary of State, will be experts from outside Government. They will come primarily from the commercial private sector, with experience of managing complex organisations. In order to achieve representative Boards with broad-based experience, Departments will aim as far as possible to ensure that there at least one non-executive member with substantial experience in the public and/or not-for-profit sectors, in addition to members with strong commercial expertise. Departments should aim to achieve boards which are

diverse – for example, ideally they should include at least one female non-executive board member. These considerations will also be kept in mind when planning for succession.

They will exercise their role through influence and advice, supporting as well as challenging the executive. They will advise on performance (including agreeing key performance indicators), operational issues (including the operational/delivery implications of policy proposals), and on the effective management of the Department. They will also provide support, guidance and challenge on the progress and implementation of the operational business plan, and in relation to recruiting, appraising and ensuring appropriate succession planning of senior executives. They will form committees responsible for Audit and Risk, and Nominations and Governance. To share best practice and to ensure Departments learn from the successes and failures of comparable organizations, they will meet regularly with other non-executives across government and the Government Lead Non-Executive Board Member.

Departments will support this work by providing appropriate management information and direct access to officials outside Board meetings.

Non-Executive Board Members will report their views in their own section of the Department's annual report. Through the network of Lead Non-Executive Board Members, they will also be able to feed their views back to the Prime Minister, and to the Government Lead Non-Executive Board Member, who will chair meetings of the network.

As a last resort, if Non-Executive Board Members judge that the Permanent Secretary is an obstacle to effective delivery, they will be able to recommend to the Prime Minister, Secretary of State and Head of the Home Civil Service that the Permanent Secretary should be removed from his or her post.

The **Government Lead Non-Executive Board Member** will meet regularly with Departmental Lead Non-Executive Board Members, individually and as a collective, and feed their views back to the Prime Minister, Head of the Home Civil Service and Efficiency and Reform Board, and to Parliament through an annual report to the Public Administration Select Committee.

About this Code

Why corporate governance?

Corporate governance is the way in which organisations are directed, controlled and led. It defines relationships and the distribution of rights and responsibilities among those who work with and in the organisation, determines the rules and procedures through which the organisation's objectives are set, and provides the means of attaining those objectives and monitoring performance. Importantly, it defines where accountability lies throughout the organisation.

Accountabilities and role of the board

The corporate governance code for central government departments (this Code) does not change existing responsibilities and accountabilities of ministers and accounting officers to parliament. Central government is a difficult environment to manage well and can benefit from the introduction of outside expertise. But it has many unique characteristics and it would not be appropriate to import governance arrangements directly from other sectors.

Governance arrangements in central government departments are intended to support, help and challenge the way departments are run and how they deliver. Departmental boards are therefore advisory bodies to support and challenge ministers and accounting officers.

The Code is drafted to offer flexibility in the way a board behaves, particularly to foster a sense of equal status and collective corporate behaviour amongst board members. In particular it may be appropriate in certain areas for the board to assume the characteristics of a supervisory body, in order to provide governance oversight to support the accounting officer.

Each department needs to be pragmatic in the way they implement the principles of the Code. One size never fits all, but the comply or explain mechanism enables departments to deviate from the principles and supporting provisions if justifiable for the good governance of the department.

Good governance is central to the effective operation of government departments. Government departments are not the same as for-profit corporations, but they need to be business-like and operate according to recognised precepts of good governance in business:

- **Leadership** – articulating a clear vision for the department and giving clarity about how policy activities contribute to achieving this vision, including setting risk appetite and managing risk;
- **Effectiveness** – bringing a wide range of relevant experience to bear, including through offering rigorous challenge and scrutinising performance;
- **Accountability** – promoting the government's goal of transparency through clear and fair reporting; and
- **Sustainability** – taking a sensible, long-term view about what the department is trying to achieve and what it is doing to get there.

This Code is the primary reference and overview of good practice for corporate governance in central government departments. It should be cascaded to management throughout central government. There is further guidance on various aspects of corporate governance in government in a number of other publications, including *Managing Public Money*, the *Audit Committee Handbook*, the *Ministerial Code* and the *Civil Service Code*.

Codifying the requirements for good governance can only go so far. To maximise the effectiveness of an organisation, people within the governance structure need to adopt appropriate behaviour too. Compliance with this Code cannot guarantee good performance but it does make it more likely. The principles, policy and provisions outlined in this Code provide a framework designed to facilitate good decision-making by departments. In order to foster good decision-making, the board needs to adopt open and transparent behaviours.

This code

Where appropriate, the Code draws on best practice in the public, private and charity sectors. In addition, it incorporates findings from a comprehensive review into corporate governance in central government departments. The review aims to improve the effectiveness of government by:

- drawing on the expertise and experience of the highest calibre of business leaders in the strategic and operational leadership of government departments;
- reinforcing the importance of corporate governance as a pre-requisite to achieving good financial management;
- reflecting changes in governance best practice, including increased emphasis on good leadership (often referred to as 'tone from the top');
- identifying and addressing perceived shortcomings in the 2005 Code, including the provision of more guidance on how the principles of the Code might be implemented (published separately as *Corporate governance in central government departments: Code of good practice – Guidance* (Guidance));
- promoting better governance arrangements within departmental families;
- helping address some of the specific weaknesses identified by the capability review programme.

The most significant changes in this Code are:

- the provision that the senior ministers in each department should chair their departmental boards, in line with the *Ministerial Code* of May 2010. This change aims to help ministers engage with their departments and enable them to lead their departments effectively. The established accountability of ministers and permanent secretaries to parliament remains unchanged;
- the appointment of a government lead non-executive, who will work with, and through, non-executives on each departmental board. This will improve coordination from the centre and enhance the position of non-executives on boards;
- an emphasis on making departments more business-like (whilst recognising that departments are not businesses), for example, through a more prominent role for non-executive board members;
- the removal of references to the independence of board members and a focus instead on the management of board members' potential conflicts of interest. They must, of course, be appointed on merit.

In addition to central government departments, the principles in the Code generally hold across other parts of central government, including departments' arm's length bodies (ALBs) and non-ministerial departments. Arrangements for ALBs may depend on statute. Generally, ministers do not chair ALBs, nor non-ministerial departments where statute sets out the applicable governance.

The devolved administrations have different structures. The principles remain relevant and devolved administrations may want to consider how to identify and adopt them. In ALBs and non-ministerial departments, in line with other good practice guidance, such as the UK Corporate Governance Code issued by the Financial Reporting Council, it is good practice to operate a board with a non-executive chair and a chief executive, adopting the other principles of this Code, as appropriate.

Comply or explain

The Code is based on principles. In places, it incorporates as government policy the *Enhanced departmental boards: protocol* issued in December 2010. This protocol has been included at the front of this Code.

The Code needs to be considered in its entirety to ensure a comprehensive perspective of good practice. The Code focuses on the role of boards, since these provide leadership. Departments should apply the principles of the Code to meet their business needs.

Departures from the Code may be justified if good governance can be achieved by other means. Reasons for departure should be explained clearly and carefully in the governance statement accompanying its annual resource accounts. In providing an explanation, a department should aim to illustrate how its practices are both consistent with the principle to which the particular provision relates and contribute to good governance.

Guidance, issued by HM Treasury and the Cabinet Office, sets out a suggested approach for departments on how the principles may be applied.

The most up-to-date version of the Code is kept electronically on HM Treasury's website, www.hm-treasury.gov.uk.

1

Parliamentary accountability

Principles

1.1 The minister in charge of the department is responsible and answerable to Parliament for the exercise of the powers on which the administration of that department depends. He or she has a duty to Parliament to account, and to be held to account, for all the policies, decisions and actions of the department, including its arm's length bodies.

1.2 The departmental accounting officer is personally responsible and accountable to Parliament for the organisation and quality of management in the department, including its use of public money and the stewardship of its assets.

Supporting provisions

1.3 The lead minister in a department may devolve to his or her junior ministers responsibility for a defined range of departmental work, including parliamentary business.

1.4 In non-ministerial departments, there should be an agreement as to which minister(s) should answer for the department's affairs in Parliament.

1.5 Generally speaking, civil servants working for a departmental minister may exercise powers of the minister in charge of the department. Ministers remain accountable to Parliament for decisions made under their powers.

1.6 The official at the head of the department is normally appointed as its accounting officer (AO). The duties of the post are outlined in chapter 3 of *Managing Public Money*.

1.7 Parliament grants resources to departments for specified purposes. HM Treasury administers these resources on behalf of parliament and appoints the AOs who are charged with ensuring resources are used as parliament intends. The AO of a central government department may look to the head of the Home Civil Service for support in this role.

1.8 The AO should establish and document a clear allocation of responsibilities amongst officials in the department, but he or she retains overall personal responsibility and accountability to parliament for:

- propriety and regularity;
- prudent and economical administration;
- avoidance of waste and extravagance;
- ensuring value for money, judged for the Exchequer as a whole, not just for the department;
- efficient and effective use of available resources;
- the organisation, staffing and management of the department.

1.9 An AO who is instructed by the minister responsible for the department (whether or not supported by the collective decision of the Board) to take a course of action that he or she believes to be contrary to the responsibilities and accountabilities set out in chapter 3 of *Managing Public Money* should seek a written direction from the minister¹. An AO may not rely on a departmental board minute as an alternative to a formal written direction.

1.10 In addition to forwarding a copy of all ministerial directions to the Comptroller and Auditor General, who will normally draw the matter to the attention of the Committee of Public Accounts (PAC), the AO should also disclose all ministerial directions to the board at the next board meeting. All ministerial directions that would be subject to public disclosure under the Freedom of Information Act 2000 were an appropriate request made should be disclosed in the governance statement for the period in which the direction was granted.

1.11 At the request of the departmental AO, other senior officials in the department may be appointed as additional accounting officers for certain accounts, requests for resources, or distinct parts of an estimate. The departmental AO retains overall responsibility to parliament for ensuring a high standard of financial management in the departmental family as a whole.

¹ See Chapter 3 of *Managing Public Money* for further guidance.

2

The role of the Board

Principles

2.1 Each department should have an effective board, which provides leadership for the department's business, helping it to operate in a business-like manner. The board should operate collectively, concentrating on advising on strategic and operational issues affecting the department's performance as well as scrutinising and challenging departmental policies and performance, with a view to the long-term health and success of the department.

Government policy

2.2 The board forms the collective strategic and operational leadership of the department, bringing together its ministerial and civil service leaders with senior non-executives from outside government, helping the department to operate in a business-like manner. The board's role includes appropriate oversight of sponsored bodies.

2.3 The board does not decide policy or exercise the powers of the ministers. The department's policy is decided by ministers on advice from officials. The board advises on the operational implications and effectiveness of policy proposals.

2.4 The board should meet regularly. It advises on five main areas:

- **Strategic Clarity** – setting the vision and/or mission and ensuring all activities, either directly or indirectly, contribute towards it; long-term capability and horizon scanning, ensuring strategic decisions are based on a collective understanding of policy issues; using outside perspective to ensure that Departments are challenged on the outcomes;
- **Commercial Sense** – approving the distribution of responsibilities; advising on sign-off of large operational projects or programmes; ensuring sound financial management; scrutinising the allocation of financial and human resources to achieve the plan; ensuring organisational design supports attaining strategic objectives; setting the Department's risk appetite and ensuring controls are in place to manage risk; evaluation of the board and its members, and succession planning;
- **Talented People** – ensuring the Department has the capability to deliver and to plan to meet current and future needs;
- **Results Focus** – agreeing the operational business plan, including strategic aims and objectives; monitoring and steering performance against plan; scrutinising performance of sponsored bodies; and setting the Department's standards and values;
- **Management Information** – ensuring clear, consistent, comparable performance information is used to drive improvements.

2.5 Some activities may be exercised by committees of the board. As a minimum, this will include committees responsible for audit and risk assurance (the responsibilities of which will include for reviewing the comprehensiveness of assurances and integrity of financial statements), and nominations and governance (the responsibilities of which will include ensuring there are

satisfactory systems for identifying and developing leadership and high potential, scrutinising the incentive structure and succession planning for the board and the senior leadership of the Department, and scrutinising governance arrangements).

Supporting provisions

2.6 The board supports ministers and senior officials in directing the business of the department in as effective and efficient way as possible with a view to the long-term health and success of the department.

2.7 The board must support the AO for the discharge of obligations set out in *Managing Public Money* for the proper conduct of business and maintenance of ethical standards.

2.8 The board should collectively affirm and document its understanding of the department's purpose and document the board's role and responsibilities in a board operating framework (an example is provided as an annex to Guidance). This document should include a formal schedule of matters reserved for board discussion, i.e. those which should not be delegated to committees. The board operating framework should be reviewed and updated from time to time and at least every two years.

2.9 The board should act corporately and objectively when discharging its responsibilities.

2.10 Board members should act in the public interest in keeping with the Nolan principles of public life.

2.11 The board should support actions to ensure that officials comply with the *Civil Service Code*.

2.12 The board should ensure that the department's reporting obligations to the Treasury, Cabinet Office and parliament are met effectively and efficiently.

2.13 The board's activities should be recorded and communicated as appropriate within the department. Boards may permit certain members of the department to observe all or part of their meetings.

2.14 Board committees should only exercise governance functions and not stray into the executive management of the department which is the role of officials. The Nominations and Governance Committee and the Audit Committee should each be chaired by a non-executive board member and have clear terms of reference agreed by the board. The board should ensure that it receives adequate and timely feedback on the work of those committees and is able to consider their decisions formally. A schedule of agreed delegations to committees of the board, and the mechanisms for feedback and assurance, should be documented in the board operating framework.

2.15 The permanent secretary is responsible for the executive management of the department. The permanent secretary should set out annually for the board a structure for discharging this responsibility.

2.16 Where board members have concerns, which cannot be resolved, about the running of the department or a proposed action, they should ensure that their concerns are recorded in the minutes. This might occur, for example, in the rare circumstance in which the chair of the board considers it necessary to depart from the collective view of the board.

3

Board composition

Principles

3.1 The board should have a balance of skills and experience appropriate to fulfilling its responsibilities. The membership of the board should be balanced, diverse and manageable in size.

3.2 The roles and responsibilities of all board members should be defined clearly in the department's board operating framework.

Government policy

3.3 The board should be balanced, with approximately equal numbers of ministers, senior officials and NEBMs. It should comprise:

- the department's lead minister, who should chair;
- other departmental ministers;
- the permanent secretary;
- the finance director, who should be professionally qualified;
- other senior officials;
- at least four non-executive board members (NEBMs), the majority of whom should be senior people from the commercial private sector, with experience of managing complex organisations. NEBMs should be appointed in accordance with the relevant sections of the guidance.

3.4 NEBMs will exercise their role through influence and advice, supporting as well as challenging the executive, and covering such issues as:

- performance (including agreeing key performance indicators), operational issues (including the operational and delivery implications of policy proposals), and on the effective management of the Department;
- support, guidance and challenge on the progress and implementation of the operational business plan;
- the recruitment, appraisal and suitable succession planning of senior executives, as appropriate within the principles set out by the Civil Service Commission;
- forming an audit and risk assurance committee;
- forming a nominations and governance committee;
- meeting other non-executives across government and the Government Lead NEBM from time to time to share best practice and to ensure departments learn from the successes and failures of comparable organisations;
- reporting their views in their own section of the department's annual report;

- feeding their views back to the Prime Minister and the government lead NEBM, through the lead NEBMs' network.

3.5 In each department, one of the NEBMs should be designated as the lead NEBM. This person should:

- support the lead minister as chair of the board;
- meet the other NEBMs regularly, ensuring that their views are given due weight on the board and the lead minister is aware of any concerns;
- ensure that the NEBMs collectively meet the lead minister alone from time to time;
- liaise with the government lead NEBM (see paragraph 3.5 below);
- play an active role in the cross-government network of lead NEBMs.

3.6 If the NEBMs believe the permanent secretary is a barrier to effective delivery, in extremis, they can recommend that the Prime Minister, lead minister and Head of the Home Civil Service, should remove him or her from post.

3.7 The government lead NEBM, appointed by the Prime Minister, should:

- meet departmental lead NEBMs regularly;
- ensure that the Prime Minister, Head of the Home Civil Service, Efficiency and Reform Board and Parliament, through an annual report to the Public Administration Select Committee, are aware of the key concerns of the NEBM community and provide feedback on policy implementation;
- act as departmental lead NEBM of the Cabinet Office board.

Supporting provisions

3.8 The board should provide collective strategic and operational leadership to the departmental family, helping it to operate in a business-like manner.

3.9 The board should include people with a mix and balance of skills and understanding to match and complement the department's business and its strategic aims, typically including:

- leadership;
- management of change in complex organisations;
- process and operational delivery;
- commercial procurement expertise;
- knowledge of the department's business and policy areas;
- corporate services professional skills, including finance, human resources, communications, information systems and information technology.

3.10 The mix and balance of skills and understanding should be reviewed periodically, at least annually as part of the board effectiveness evaluation (see paragraph 4.9), to ensure they remain appropriate for the department's board.

3.11 The search for board candidates should be conducted, and appointments made, on merit, with due regard for the benefits of diversity on the board; including gender, on which the Government has stated its aspiration that by the end of the Parliament at least half of all new appointees being made to public bodies will be women.

- 3.12** The lead minister, taking into account the views of the board, should decide whether the next most senior minister or the lead NEBM should chair the board in his or her absence.
- 3.13** The board should agree and document in its board operating framework a *de minimis* threshold and mechanism for board advice on the operation and delivery of policy proposals.
- 3.14** The board should be informed of government-wide policies and initiatives and challenge officials on the department's compliance.
- 3.15** NEBMs should provide advice, support and informal ongoing feedback to the department's permanent secretary and other civil service board members.
- 3.16** In consultation with the chair and the department's lead NEBM, NEBMs may take the lead on some of the board's activities. These should be set out in the board operating framework.
- 3.17** In consultation with the permanent secretary and the lead NEBM, the chair may appoint board members who are senior officials or other board members from any of the department's arm's length bodies. Such appointments would be part of the board structure set out in 3.1 and subject to the same selection criteria applied to other board members who are officials or NEBMs.

4

Board effectiveness

Principles

4.1 The board should ensure that arrangements are in place to enable it to discharge its responsibilities effectively, including:

- formal procedures for the appointment of new board members, tenure and succession planning for both board members and senior officials;
- allowing sufficient time for the board to discharge its collective responsibilities effectively;
- induction on joining the board, supplemented by regular updates to keep board members' skills and knowledge up-to-date;
- timely provision of information in a form and of a quality that enables the board to discharge its duties effectively;
- a mechanism for learning from past successes and failures within the departmental family and relevant external organisations;
- a formal and rigorous annual evaluation of the board's performance and that of its committees, and of individual board members;
- a dedicated secretariat with appropriate skills and experience.

Supporting provisions

4.2 An effective board requires the effective discharge of the chair's responsibilities. The lead non-executive board member (NEBM) will support the chair to help him or her carry out the role effectively, particularly given the competing demands on the chair's time.

4.3 All boards should have a nominations and governance committee, which will advise the board on key elements of effectiveness, including ensuring there are satisfactory systems for identifying and developing leadership and high potential, scrutinising the incentive structure and succession planning for the board and the senior leadership of the Department, and scrutinising governance arrangements.

4.4 The nominations and governance committee will be advisory; it will advise on whether the department's systems (e.g., for rewarding senior executives) are effective in helping the department achieve its goals. It will not have a role in deciding individual cases (for example the level of reward of a particular senior executive). These functions will continue to be carried out by the executive; under the scrutiny of the nominations and governance committee.

4.5 The terms of reference for the nominations and governance committee will include at least the following four central elements:

- scrutinising systems for identifying and developing leadership and high potential;
- scrutinising plans for orderly succession of appointments to the board and of senior management, in order to maintain an appropriate balance of skills and experience;

- scrutinising incentives and rewards for executive board members and senior officials, and advising on the extent to which these arrangements are effective at improving performance;
- advising on, and scrutinising the department's implementation of, corporate governance policy.

4.6 The attendance record of individual board members should be disclosed in the governance statement and cover meetings of the board and its committees held in the period to which the resource accounts relate.

4.7 The permanent secretary should support the chair to ensure that board members have the skills, knowledge and familiarity with the department required to fulfil their role on the board and its committees. Through the board secretariat, the department should provide the necessary resources for developing and updating the knowledge and capabilities of board members, including access to its operations and staff.

4.8 Board members' time is a finite resource. The permanent secretary should support the chair, through the board secretary, to ensure that board members receive accurate, timely and clear information. Board information should be concise and fit for purpose, setting out comprehensive, relevant evidence, and avoiding duplication of data collection efforts. It should cover the main areas of the board's activities (set out in 2.3 above), along with background on the department's policy portfolio.

4.9 Wherever possible, the information presented to the board should enable comparison with other departments or relevant organisations.

4.10 Where necessary board members should seek clarification or amplification on board issues or board papers through the board secretary. The board secretary will consider how officials can best support the work of board members; this may include providing board members with direct access to officials where appropriate.

4.11 An effective board secretary is essential for an effective board. Under the direction of the permanent secretary, the board secretary's responsibilities should include:

- developing and agreeing the agenda for board meetings with the chair and lead NEBM, ensuring all relevant items are brought to the board's attention;
- ensuring good information flows within the board and its committees and between senior management and NEBMs, including:
 - challenging and ensuring the quality of board papers and board information;
 - ensuring board papers are received by board members according to a timetable agreed by the board;
 - providing advice and support on governance matters and helping to implement improvements in the governance structure and arrangements;
- ensuring the board follows due process;
- providing assurance to the board that the department:
 - complies with government policy, as set out in the Code;
 - adheres to the Code's principles and supporting provisions on a comply or explain basis (which should form part of the report accompanying the resource accounts);

- acting as the focal point for interaction between NEBMs and the department, including arranging detailed briefing for NEBMs and meetings between NEBMs and officials, as requested or appropriate;
- recording board decisions accurately and ensuring action points are followed up;
- arranging induction and professional development of board members (including ministers).

4.12 The lead NEBM should support the chair to ensure a board effectiveness evaluation is carried out annually, and with independent input at least once every three years.

4.13 The lead NEBM should ensure the chair acts on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, recommending new members be sought for the board (subject to the open appointments process) or seeking the resignation of board members.

4.14 Evaluations of the performance of individual board members should show whether each continues to contribute effectively and corporately and demonstrates commitment to the role (including commitment of time for board and committee meetings and other duties).

4.15 The board should agree and document an appropriate system to record and manage conflicts and potential conflicts of interest of board members. The board should publish, in its governance statement, how any identified conflicts, and potential conflicts, of interest of board members have been managed.

5

Risk management

Principles

5.1 The board should ensure that there are effective arrangements for governance, risk management and internal control for the whole departmental family. Advice about and scrutiny of key risks is a matter for the board, not a committee. The board should be supported by:

- an audit and risk assurance committee, chaired by a suitably experienced non-executive board member (NEBM);
- an internal audit service operating to Government Internal Audit Standards¹;
- sponsor teams of the department's key arm's length bodies (ALBs).

5.2 The board should take the lead on, and oversee the preparation of, the department's governance statement for publication with its resource accounts each year.

Government policy

5.3 The board's regular agenda should include scrutinising and advising on risk management.

5.4 The key responsibilities of NEBMs include forming an audit and risk assurance committee.

Supporting provisions

5.5 The head of internal audit should periodically be invited to attend board meetings, where key issues are discussed relating to governance, risk management or control across the department and its ALBs.

5.6 The board should assure itself of the effectiveness of the department's risk management system and procedures and its internal controls. The board should give a clear steer on the desired risk appetite for the department² and ensure that:

- there is a proper framework of prudent and effective controls, so that risks can be assessed, managed and taken prudently;
- there is clear accountability for managing risks;
- departmental officials are equipped with the relevant skills and guidance to perform their assigned roles effectively and efficiently.

5.7 The board should also ensure that the department's ALBs have appropriate and effective risk management processes through the department's sponsor teams.

¹ Government Internal Audit Standards published by HM Treasury

² *Thinking about risk*, published by HM Treasury

5.8 The board should ensure an ALB makes effective arrangements for internal audit. It is good practice to work with a group or shared internal audit provision, for example covering a department and its ALBs. In any case, the board should ensure it provides for internal audit access to its ALBs.

5.9 The board and accounting officer should be supported by an audit and risk assurance committee, comprising at least three members. The chair of the committee should be a NEBM of the board with relevant experience. There should be at least one other NEBM of the board on the committee; the committee may also choose to seek further non-executive membership from non-members of the board in order to ensure an appropriate level of skills and experience. At least one, but preferably more, of these committee members should have recent and relevant financial experience.

5.10 Advising on key risks is a role for the board. The audit and risk assurance committee should support the board in this role.

5.11 An audit and risk assurance committee should not have any executive responsibilities or be charged with making or endorsing any decisions. It should take care to maintain its independence. The audit and risk assurance committee should be established and function in accordance with the *Audit Committee Handbook*³.

5.12 The board should ensure that there is adequate support for the audit and risk assurance committee, including a secretariat function.

5.13 The annual governance statement (which includes areas formerly covered by the statement on internal control) is published with the resource accounts each year. In preparing it, the board should assess the risks facing the department and ensure that the department's risk management and internal control systems are effective. The audit and risk assurance committee should normally lead this assessment for the board.

5.14 The terms of reference of the audit and risk assurance committee, including its role and the authority delegated to it by the board, should be made available publicly. The department should report annually on the work of the committee in discharging those responsibilities

³ Audit Committee Handbook published by HM Treasury

6

Arms Length Bodies

Principle

6.1 Where part of the business of the department is conducted with and through arm's length bodies¹ (ALBs), the department's board should ensure that there are robust governance arrangements with each ALB board. These arrangements should set out the terms of their relationship and explain how they will be put in place to promote high performance and safeguard propriety and regularity.

Government policy

6.2 The board's regular agenda should include scrutiny of the performance of the department's sponsored bodies.

Supporting provisions

6.3 ALBs are publicly accountable, whether funded directly from parliament, a central government department, or through a government sponsored commercial structure that enables the body to generate its own revenue. Therefore, ALBs are accountable to their sponsor department for performance and the use of their resources (as set out in paragraph 1.6 above), within the established arm's length relationship as set out in the framework document.

6.4 Each central government department is accountable to parliament, through the minister responsible for the department as set out in Chapter 1. This accountability includes the performance of the department's ALBs.

6.5 The board should ensure that the department has a written agreement (in accordance with Chapter 7 of *Managing Public Money*) with each of its ALBs, which defines clearly how the relationship should work. Each departmental agreement with an ALB should be drawn up to reflect the:

- purpose and responsibilities of the ALB;
- legal framework (if any) of the ALB; and
- environment in which it operates (e.g. commercial, judicial, advisory).

6.6 The written agreement should be reviewed and updated periodically. Certain events should trigger such a review, such as the appointment of a new chair or chief executive officer in an ALB, changes of senior personnel in the sponsor team or a significant change in government policy relating to the ALB's business. As a minimum, written agreements should be reviewed formally at least once every three years.

¹ The term "arm's length bodies" is taken to include a department's executive agencies, NDPBs and public corporations. There may also be value in considering the department's governance arrangements for other strategic partners e.g. PPP and PFI partners.

6.7 The agreement should include clear information about the:

- shared aims and mutual responsibilities, including a management framework and potential rewards and sanctions for meeting or missing performance targets within an agreed tolerance;
- arrangements for reporting and consultation in order to ensure that the departmental board receives information enabling it to monitor the areas specified in paragraph 2.3;
- mechanisms to provide the department with assurance on information provided by ALBs on their performance;
- roles and obligations of both the department and ALB, along with expectations of support from the other party; and
- process for making board and senior management appointments in the ALB.

6.8 Departments may want the agreement to specify reporting relationships along professional lines, in addition to that of the department's AO and the ALB's AO. In particular, the relationship between the departmental finance director and the ALB's finance director should be specified, to support the relationship between AOs.

6.9 Guidance on the framework documents between departments and ALBs is included in Chapter 7 of *Managing Public Money*.

6.10 In practice, departments may adopt a variety of supplementary arrangements to manage these relationships. For example, senior members of ALBs may be members or observers of departmental boards in their capacity as stakeholders; similarly, departmental board members may be members of the boards of ALBs.

6.11 The department's relationship with ALBs should reflect the board's assessment of each ALB's ability to manage its risks, including those relating to delivery and financial management, and its performance. The aim should be to ensure that the department's monitoring of, and support for, its ALBs is concentrated on those with the most significant risks.

6.12 The department should report annually on the arrangements it has in place for promoting sound working relationships with its ALBs. Periodically, there should be an external review of the governance arrangements between the department and its ALBs, which may be incorporated within other external reviews whether commissioned by the department or the centre of government.

6.13 The department should periodically review the effectiveness of its portfolio of ALBs and whether or not they are:

- delivering in line with departmental policy;
- effective and provide value-for-money;
- the most appropriate mechanism for implementing policy objectives.

7

Glossary

ALBs	Arm's length bodies including a department's executive agencies, NDPBs and public corporations
AO	Accounting Officer
The Code	'Corporate governance in central government departments: Code of good practice 2011'
The 2005 Code	'Corporate governance in central government departments: Code of good practice July 2005'
Finance director	The senior finance professional in a department
Governance statement	This includes: the areas formerly covered by the statement on internal control; an account of how the Code has been complied with or an explanation of reasons for departure from the Code; and disclosure of attendance at board meetings.
Guidance	'Corporate governance in central government departments: Code of good practice 2011 – Guidance Note'
MoU	Memorandum of Understanding
NDPB	Non-departmental public bodies
NEBM(s)	Non-executive board member(s)
PAC	Committee of Public Accounts
PFI	Private finance initiatives
PPP	Public-private partnerships
Sponsor team	Officials in a department responsible for the day-to-day support to, liaison with and relationship management of an ALB
Sponsored bodies	Used interchangeably with ALBs

Steering Group Membership

This code of good practice for corporate governance in central government departments is issued by the Treasury and the Cabinet Office. It was drawn up incorporating government policy and input from Lord Browne, the government lead non-executive, and under the oversight of a steering group. The Treasury and the Cabinet Office are grateful for the assistance of the members of the group, who were:

Alex Allan – <i>Chair</i>	Chair, Joint Intelligence Committee
Ken Beeton	Senior Responsible Officer, HM Treasury
John Buchanan	Chair, Smith & Nephew plc; Deputy Chair, Vodafone Group Plc; and senior independent director of BHP Billiton
Alexis Cleveland, CB	Director General, Cabinet Office; non-executive board member, Defra and DCMS
Paula Diggle	Treasury Officer of Accounts, HM Treasury
Richard Douglas, CB	Director General for Finance, Department of Health
Philippa Foster Back, OBE	Director, Institute of Business Ethics
Steve Freer	Chief Executive, CIPFA
Dame Deirdre Hutton, CBE	Chair, Civil Aviation Authority and non-executive board member, HM Treasury
Dame Gillian Morgan, DBE	Permanent Secretary, Welsh Assembly Government
Jane Platt	Chief Executive, National Savings and Investments
Sir Peter Ricketts, GCMG – <i>Deputy Chair</i>	Permanent Under Secretary, Foreign and Commonwealth Office (stood down from the steering group in June 2010 on his appointment as National Security Adviser)
Martin Sinclair	Assistant Auditor General, National Audit Office
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