

Chapter 1

Introduction

1. In our first report (*Standards in Public Life*¹), published in May 1995, we identified seven principles of public life which are printed at the front of this report. We also identified a number of key elements essential for maintaining standards of conduct and ensuring that the seven principles were observed: the establishment of codes of conduct; mechanisms of independent scrutiny; and education and training. We called these ‘common threads’.

2. Our terms of reference cover all holders of public office and members and senior officers of bodies discharging publicly-funded functions. In our first report we considered Parliament, Ministers and civil servants, and executive non-departmental public bodies (quangos). For this report, our second, we have turned to what we have called local public spending bodies:

- further and higher education bodies (including universities);
- grant-maintained schools;
- training and enterprise councils (TECs) — in Scotland, local enterprise companies (LECs); and
- registered housing associations.

3. Local public spending bodies are ‘not for profit’ bodies which are neither fully elected nor appointed by Ministers, but which provide public services, often at local level, which are largely or wholly publicly funded. These bodies are not necessarily in the public sector, as it is traditionally understood. It is a fact of life that today public services are not provided wholly by the public sector, and that the boundaries between sectors may not be entirely clear. The legal status of the group of bodies which we are considering varies considerably. For example, TECs and LECs are companies limited by guarantee. Registered housing associations form part of the voluntary sector; often they are charities. What this group of bodies has in common is not that they are public or private sector, but that they each spend a great deal of public money — more than £15 billion a year in all; and that they are all subject to special regulation; housing associations through non-departmental public bodies which act as funders and regulators; the education bodies by the relevant Secretaries of State and funding councils; and TECs and LECs through very detailed operating agreements. We have taken account of the very varied origins and histories of these bodies, and we acknowledge also the differences that exist in their scope and size, both between sectors and within them. Each sector is therefore dealt with separately in the body of this report. In this chapter we review the sectors as a whole, applying the principles and common threads developed in our first report. In chapter 6 we draw out some of the issues which have emerged in our work on local public spending bodies and which are of general application.

Local Public Spending Bodies

Non Executive Board Membership & Expenditure

<i>INSTITUTIONS</i>	<i>Number</i>	<i>Board members*</i>	<i>Expenditure†</i>
Higher Education			
<i>English Higher Education Institutions</i>	147		
<i>Scottish Higher Education Institutions</i>	23	4,600	£7.56bn
<i>Welsh Higher Education Institutions</i>	14		
Further Education			
<i>English Further Education Institutions</i>	452		
<i>Scottish Further Education Institutions</i>	46	10,560	£3.2bn
<i>Welsh Further Education Institutions</i>	30		
Grant maintained Schools			
<i>England</i>	1,112		
<i>Scotland</i>	2	20,340	£1.7bn
<i>Wales</i>	16		
Training & Enterprise Councils			
<i>England & Wales</i>	81	1,215	£1.4bn
Local Enterprise Companies			
<i>Scotland</i>	22	264	£0.5bn
Housing Associations			
<i>England</i>	2,276		
<i>Scotland</i>	273	31,764	£1.5bn
<i>Wales</i>	98		
TOTALS	4,592	68,743	£15.86bn

* Board membership calculations based on the following figures per institution:
 Higher Education — 25; Further Education — 20; Grant Maintained Schools — 18
 Training & Enterprise Councils — 15; Local Enterprise Companies — 12
 Housing Associations — 12

These are possible totals; actual numbers will be lower due to vacancies or to decisions of boards.
 Figures for Higher Education may be underestimated as some institutions have much larger governing bodies.

† Expenditure based on latest available figures from various sources.

4. Many local public spending bodies have not existed for long in their present form; and many of those serving on their governing bodies are doing so for the first time. This generalisation does not apply, of course, to the older universities or to many housing associations, but is particularly relevant to TECs and LECs, and in varying degrees to the new universities, further education colleges, grant-maintained schools, and housing associations set up to take over local authority housing stock. These new bodies or new functions demand new structures of accountability, and those serving on them, coming often from a background in the private sector, have to become familiar with the ethos of an institution spending substantial sums of public money. We therefore considered that it would be timely to review arrangements for maintaining standards of conduct in all these bodies in the light of our study of executive non-departmental public bodies in our first report; to examine the lessons to be learned from the cases of misconduct which have occurred; and to identify and disseminate best practice.

Voluntary Service

5. The terminology for governing bodies varies in local public spending bodies: there are councils, management committees, boards of governors or directors, and so on. We will use the terms governing body or board to cover all these designations. Yet there is one striking and common feature. Their members — and there are nearly 70,000 of them — are unpaid volunteers. Paid staff sometimes sit on boards, such as TEC chief executives, vice-chancellors and principals of universities and colleges, and head teachers, as well as other staff representatives. These are, however, exceptions to the general principle that governing body service is voluntary and unpaid.

6. Voluntary service is one of the great strengths of the British system. In our first report we said of the voluntary principle, that it 'is clearly still alive, and we believe it is important to strengthen and preserve it'. Our work on this report confirms us in that belief. We received some evidence favouring the extension of pay to members of governing bodies covered by this report, and we discuss this issue in chapter 6. However we wish to place on record at the start of this report our appreciation of the unpaid service of so many thousands of volunteers in local public spending bodies.

General Standards of Conduct

7. In our first report we remarked that 'the great majority of men and women in British public life are honest and hard-working, and observe high ethical standards'. We have no doubt that the same applies to the organisations covered by this report. There is clearly a high level of dedication on the part of volunteers who serve on governing bodies. Generally, they are supported by professional and efficient staff who fully reflect the highest standards of public life. There have been cases of mismanagement, maladministration, and misconduct. Yet, based on the evidence we received, these seem to be isolated occurrences.

8. Where problems have occurred we have been impressed by the remedial action which has been taken by regulators, funding bodies, or representative associations. This has, for example, led to an increasing use of codes of conduct and publicly accessible registers of interests in local public spending bodies; standards of openness have also generally been improved. The best practice in local public spending bodies conforms to the principles set out in our first report.

The Provision of Public Services

9. Local public spending bodies have a significant economic and social role in Great Britain. As noted above, we estimate their annual expenditure at around £15 billion. Some 180 higher education institutions produce over 220,000 graduates annually. More than 530 further education colleges are educating upwards of 3.5 million students every year. Over 1,000 grant-maintained schools educate some 700,000 students. More than 2,500 registered housing associations, ranging from national operators to local almshouses, manage nearly a million rented homes. The TECs and LECs are far fewer in number (81 and 22 respectively), but manage over £2 billion of public expenditure. The activities of all these bodies directly affect a large proportion of the population.

10. The growth in the role of local public spending bodies has been relatively recent. In the post-war period virtually all public services were provided by public bodies proper. These bodies were the direct responsibility of the state, through central or local elected government. A clearly understood public service ethos ran through them sustained by centrally applied rules and, in the case of local authorities, by a strict legal framework.

11. In recent years the manner in which public services are provided has changed dramatically, both within and beyond central government. Within central government, service provision has been largely devolved to free-standing next steps agencies whose chief executives normally answer directly to Ministers, and to non-departmental public bodies (NDPBs), which are themselves ultimately answerable to Ministers. Central government has also contracted out service provision to commercial contractors, including charitable and not for profit bodies.

12. Local authorities also increasingly contract out service provision, both by choice and under compulsion from central government. A number of services, including some of those we are considering in this study, such as housing, training, and schooling, have been partly devolved to independent, or quasi-independent, bodies which are not just providing a contractual service but which have considerable control over the means and nature of the services provided.

13. As many of our witnesses said, this diversification brings benefits in terms of clarity, management, and service provision. However it can also complicate lines of accountability, and it is essential to get these right if standards of conduct are to be safeguarded. It is sometimes thought that privatising or contracting out a service to a private body relieves the sponsoring public authority of responsibility for service provision. It is important to be clear from the start, therefore, that this is not so. The fundamental proposition can be broadly stated:

Where a citizen receives a service which is paid for wholly or in part by the taxpayer, then the government or local authority must retain appropriate responsibility for safeguarding the interests of both user and taxpayer regardless of the status of the service provider.

14. This might be crudely stated as 'he who pays the piper calls the tune', but the position is rather more complex. The need to safeguard the interests of the taxpayer, as funder and purchaser of services, is clear. The government is held to its task by the Comptroller and

Auditor General, supported by the National Audit Office, whose work is followed up by the Public Accounts Committee. He assesses whether the government has exercised successfully its responsibilities on behalf of the taxpayer. The Audit and Accounts Commissions have complementary roles in respect of local government and local health bodies. The recent Cabinet Office/Treasury consultation on audit arrangements (*Spending Public Money: Governance and Audit Issues*²), which followed a recommendation in our first report, has re-emphasised the importance of public bodies having audit arrangements which cover value for money. Where public bodies purchase services they need to ensure that value for money is obtained and that contractual obligations are met.

15. However the responsibility for protecting the interests of the user or consumer of subsidised services, and the wider community, is defined with far less clarity. By deciding to use public money to provide a service which might otherwise not have been provided, or provided in a different way, government takes an action which will have an impact on the community. To a greater or lesser extent it also takes out of the user's hands the influence which the customer paying the market price has over the service provider. Where the local community and the users are unable to secure full accountability, to that extent it falls to the government, as the representative both of the community and the user, to enforce accountability.

Accountability

16. The term accountability is used in a variety of different ways, some rather loose and ill-defined. Processes of consultation, openness, and responsiveness are frequently characterised as accountability. They are certainly aids to, and components of, accountability, but on a more precise definition service providers and others are truly accountable only to those able to exercise sanctions over them. In this sense, true accountability for many of the bodies we are examining is accountability to the Government and to Parliament.

17. To some extent consumers possess a power of sanction even when they are not paying the full cost of the service, if there is genuine choice and the capacity to go elsewhere. This would be true, for example, of many university courses. Potential consumers might stay away, and as a direct result the university might lose funding. In this case, the sanction exercised by the users (staying away), and the penalty applied by the funder (reduced funding for failing to meet a target number of students) coincide. But the exercise of such sanctions is not always as straightforward as this. If the motives and priorities of the funders are not the same as those of the users, then the ability of the users to influence the decisions of the funders by exercising a collective choice may be extremely limited. If there is no genuine choice — as in the provision of social housing — then the funder might never become aware of the views of the users.

18. Consumers may have the opportunity to influence the service providers through local consultation arrangements. The main real sanction which consumers tend to have against the funders, however, is through the electoral process. But national general elections are a very weak and ineffectual mechanism for seeking to influence the provision of local services. The sanctions which the electorate collectively can exercise over national government will seldom be sufficiently targeted to address specific local problems. The

ability of the electorate to influence non-departmental public bodies, such as the Housing Corporation or the Funding Agency for Schools, is particularly limited. There is no effective local sanction which can be used to oblige these bodies to respond to local priorities, however much they may seek to be responsive to them.

19. As we noted in our first report, it is not for this committee to enter into the argument of whether or not local services should be run under the auspices of elected local authorities, rather than those of the elected national government. Yet when local bodies are ultimately accountable to central government, the intermediate mechanisms which enable proper accountability to be secured, and to be seen to operate, need to be very carefully constructed. In particular, there is a responsibility on national government, and on its agencies and regulators, to ensure that centrally funded bodies are able to respond to local needs and concerns, and have arrangements in place which enable local concerns to be raised.

Regulation and Audit

20. A constant complaint from all the bodies we have been examining is that they are subjected to excessively detailed monitoring, requiring a disproportionate amount of time to be spent in collecting management information. We believe that as far as possible audit arrangements should be strengthened to reduce the need for such detail. We cannot emphasise too strongly the need for good auditing of the new service providers and purchasers, using the best principles of public sector audit, including performance audit, and within an auditing framework that is made more effective by reducing the number of separate external audits.

21. Audit arrangements are the subject of the separate review and consultation which we refer to in paragraph 14. We do not therefore comment in detail here on the audit arrangements for each type of body, except in the case of TECs where particular concerns were raised. But we have noted a consistent preference among the bodies themselves for each to be externally audited as far as possible by a single auditor who addresses the requirements of the various statutes and funding bodies, and we believe that this is a goal worth pursuing as far as possible.

22. Nothing we have found in this study has altered the views on audit which we set out on page 90 of our first report, that 'the propriety of all public expenditure should be capable of review by the appropriate public auditing body', and that 'we see much merit in the Comptroller and Auditor General being granted inspection rights over all public expenditure'. However in the light of the large number of bodies in these sectors, their diversity, and their predominantly local nature, we should also want to give prominence to the Audit Commission's principles of public audit, set out for us by the former Chairman of the Audit Commission, Sir David Cooksey, and quoted on page 88 of our first report:

'We believe that wherever public money is spent in any significant quantity, then the principles of public audit ought to apply. By the principles of public audit we mean: that external auditors should be independently appointed and be independent of the body under audit; that the audit should comprise not only a probity audit which ensures that money is honestly and properly spent, but that there should be a value for money element...; Then, finally that auditors should be entitled to publish reports in the public interest wherever they feel that it is important that the public understands where misappropriation or misuse of funds has taken place. These reports in the public interest are a very important check and balance to ensure that high standards of public life are maintained'.

We place particular emphasis, as we did in our first report, on the right and, we believe, the obligation of the auditors to publish public interest reports.

23. Both on regulation and audit, we believe that if the benefits flowing from the autonomy of these bodies are to be fully realised it is no use replacing detailed local control with detailed central control. We believe that clear policy guidelines and operating boundaries for these bodies need to be laid down. We also believe that the sanctions for departure from those guidelines need to be strong and explicit, and that the extent to which failure will be underwritten needs to be strictly limited. On that basis, we can therefore set out a second fundamental proposition, complementing the first:

Central control of autonomous but centrally-funded local bodies should be limited as far as possible to setting policy guidelines and operating boundaries, to ensuring an effective audit framework, and to the effective deployment of sanctions. Government and Parliament should aim to ensure that local mechanisms to influence the activities of local bodies exist, and should give them the support necessary to ensure accountability.

Appointments

24. A common feature of the boards of most local public spending bodies is that they are responsible for renewing their own membership. In most cases they do so according to a set of criteria imposed by statute or contract (new universities, further education colleges, grant-maintained schools and TECs and LECs). In others they have their own rules (housing associations, old universities). They are thus unlike the non-departmental public bodies we looked at in our first report, the members of whose boards are appointed by Ministers, and which will now be subject to a code of practice and rules laid down by the Public Appointments Commissioner.

25. The principles underlying the Code of Practice apply with equal force to all the bodies covered by this study. However the code as it stands contains numerous references to Ministerial appointments, and is not suitable to be applied wholesale to local public

Draft Code of Practice for Public Appointments Procedures

(As set out in first report of Committee on Standards in Public Life)

Defining the task (job description) and the qualities sought (“person specification”);

- *Job descriptions and a summary of the key qualities sought “a person specification” should always be documented, be publicly available, be sent to all candidates and be held for scrutiny by the Public Appointments Commissioner*
- *A description of the appointments process should be similarly documented and made available.*

Identifying a field of candidates

- *A wide field of candidates should be obtained by making appropriate use of:*
- *Advertising — both general and for individual posts*
- *Executive search*
- *Consultation with interested bodies, which should always include any recognised consultative/user groups and, for local appointments, the elected local authorities*
- *Maintaining and using databases of interested and appropriate people*
- *It should always be possible for anyone to nominate anyone, including themselves, and this should be made clear in all advertising and publicity.*

Selecting a short list, and recommending candidates to Ministers

- *The sifting of candidates should be undertaken or overseen by committees or panels with independent members*
- *Any candidate recommended to Ministers should have been approved as suitable for the post by the committee or panel, taking up references where appropriate.*

Choosing the preferred candidates(s)

- *Appointments should be made on the basis of merit, with the aim of achieving a balance of relevant skills and backgrounds on the board*
- *Candidates should not normally be appointed without having been interviewed either by the advisory committee/panel or, in the case of more senior appointments, by Ministers or senior officials*
- *Re-appointments should not be automatic. The performance of the post-holder should be reviewed*

Confirming the appointment

- *All appointments should be announced through press notices and other suitable means — either individually or for minor appointments in batches at least quarterly; and departments should report annually on their procedures*
- *Sponsor departments and individual NDPBs & NHS bodies should hold lists of their members which outline who they are and when their term expires.*

spending bodies. Some elements of it are not relevant, and others would not be proportionate to the size of the smaller bodies. We have considered whether to draw up a similar code for this group of bodies. However the evidence we received indicated that most organisations covered in this report are concerned to establish procedures for making appointments which satisfy standards of propriety, and that the bodies themselves, individually and collectively, are drawing up such codes. We believe that openness about the appointments system is particularly important for governing bodies which have the right to perpetuate themselves and are not subject to formal outside scrutiny of their appointment procedures. We commend the preparation of codes in the various sectors, and we urge the regulatory and funding bodies to encourage good practice.

26. Best practice, subject always to proportionality for smaller organisations, includes:-

- a publicly available written appointments process;
- job descriptions and person specification;
- the use of advertisement and/or consultation with interested bodies and other forms of canvassing;
- the encouragement of nominations (including self-nominations);
- the sifting of candidates by a nominations committee; and
- defined terms of appointment after which reappointment should not be automatic.

27. We considered whether the involvement of an outside element in appointments procedures, whether the Public Appointments Commissioner or some other body, might be appropriate. We conclude that no case has been made for introducing that change. However the Commissioner will increasingly become a source of expertise in this area, and regulators may wish to consider seeking his advice both on the structure of appointment systems and on their monitoring.

Training

28. Our witnesses and correspondents referred frequently to the onerous and complex duties faced by board members today: financial management, strategic policy, legal responsibilities and so on. Those who are new to public bodies may also need to become familiar with the special standards of conduct required for the handling of public money and the discharge of public duties. Appropriate induction and follow-on training is clearly helpful. We do not think that it is right to try to prescribe such provision centrally: that is a matter for bodies themselves to decide. Governing bodies may have a natural reluctance to undertake training because it is seen as a diversion from the work of their organisation and an unnecessary additional demand on the limited time of voluntary board members. That is understandable, but such training should not be regarded as a luxury: a well-informed and competent governing body is crucial to the organisation's long-term success.

Openness

29. The most powerful tool for ensuring that public business is transacted with propriety is openness. In our first report, we recommended a code of practice on openness for executive non-departmental public bodies.

30. The evidence we received shows that, while many of the elements of that code are in place in local public spending bodies, there is a good deal of variation in practice and progress can still be made. Best practice in local public spending bodies includes the following elements:

- making the agendas and minutes of governing body meetings widely available, together with board papers where this will not inhibit frankness and clarity
- publicising forthcoming meetings and summarising decisions in a newsletter or through some other user-friendly method
- holding an open annual meeting at which board members can be questioned by the public and press
- setting up more specialised consultation bodies for important interest groups
- publishing an annual report which includes information on the role and remit of the body, its plans or strategy; the membership of the board; and where further information can be obtained
- publishing audit reports
- making publications available as widely as possible, for example by sending them to interested parties and putting them in local public libraries.

31. These elements are important for all bodies providing public services, although they do need to be adapted to the size of the body and must not inhibit effective debate within a governing body. If the effect of circulating full minutes were to displace real decision-making from the governing body to an informal caucus, it would obviously be a retrograde step. Similarly, real arguments and options might no longer be set out in writing if board papers were invariably open documents. Each organisation must go as far as it can with openness and regularly review procedures to see if restrictions on openness are still justified.

32. Nor is openness always easy. A successful annual meeting, for example, is likely to require effort if the attendance and the questioning is to be worthwhile. Even with effort, the public response may be disappointing. Preparation of an annual report can be a burden. But the annual report does not need to be expensively produced: it is more important that it should contain the right information and be clearly laid out. There is often a lack of public understanding of the way in which local public bodies work and what

A Standard of Best Practice for Openness in Executive NDPBs and NHS bodies

(from first report of Committee on Standards in Public Life)

Access to information

- *Adoption of a specific code on access to information incorporating the Government's code, and building on it where possible*
- *Clear and published procedures for implementing the codes, including:*
- *well defined criteria for information that will be withheld, which should be cited whenever a request for information is refused*
- *standards for speed of response to enquiries (e.g. information to be provided normally within 21 days or correspondent informed of likely date)*
- *an appeal mechanism, within the organisation initially and then either to the Ombudsman, or (where the body does not come under the Ombudsman's jurisdiction) to another independent person appointed for the purpose*
- *a policy on charging for information provided (with requests requiring only a reasonable amount of work incurring no charge)*

Meetings

- *Opening meetings to the public or making minutes of meetings (and main committees) available for public inspection or describing key discussions and decisions in newsletters etc after each meeting. Some items may be deemed confidential, but the criteria for doing so should be published*
- *A well publicised Annual General Meeting open to public and media, allowing an opportunity to question the board members on the performance and activities of the body*
- *Other opportunities taken to involve and inform the public and organisation with a major interest, through consumer groups or user forums; or public meetings on major issues*

Publications

- *Annual Report and Accounts, including information on the role and remit of the body, long term plans or strategy; membership of the board; performance against key targets; targets for the forthcoming year; their commitment and approach to open government; and where further information can be obtained (including how to inspect the register of board members' interests and how to pursue complaints)*
- *Other important information to be routinely published. Depending on the body this might include key statistics; the results of consultation exercises; details of key procedures (eg criteria for allocating public funds); reports of regulatory investigations etc*
- *All publications should be made as widely available as possible, such as through public libraries, and all annual reports and accounts should be deposited in the Parliamentary libraries*

they do, which is not helpful to the organisations themselves. Greater openness will tackle that problem as well as reassuring outsiders that appropriate standards of conduct are in place, and reducing the risk of improper practices developing unnoticed. We urge all the bodies in the sectors to work towards achieving best practice on openness.

Codes of Conduct

33. We noted in our first report that the development of codes of conduct, with clear guidance on ethical matters, was an important step for any organisation which wished to maintain high standards. We recommended such codes for Members of Parliament, Ministers, civil servants, and boards and staff of executive non-departmental public bodies

34. In working on this report we received much evidence, both from individual local public spending bodies and from representative organisations, on the development of codes of conduct, either for boards or for staff or both. Some codes were produced with the explicit approval and guidance of the regulatory or funding body or trade association; others were home-grown. Examples are referred to in the chapters on each sector. There is no reason why a model code should not be adopted by an organisation, but, to make it really effective, the process of putting the code in place should involve consultation with staff and a corporate commitment to ensure that the code is owned by those to whom it applies.

35. Codes of conduct are a means to an end, and do not solve problems of conduct on their own. Yet the institution of a code of conduct says clearly to everyone within and outside an organisation that conduct is taken seriously. Important elements that should normally be present are:

- a statement of the aims and values of the body
- statements of the obligations of the body towards its customers, staff, community, and other interested parties
- information about the body's approach to openness and arrangements for acquiring information about its activities
- procedures for handling inquiries and complaints
- procedures for raising complaints with an independent body.

36. In particular, the code of conduct needs to define the dividing line between the role and responsibilities of the governing body and those of the executive staff. It needs also to complement operating procedures which put in place checks and balances, through line management and audit systems, to minimise the scope for corrupt or improper behaviour. We agreed with those witnesses who felt that each organisation had to adapt general guidance to its own circumstances. That seemed to us to be the most realistic approach.

Conflicts of Interest

37. Registers of interests of governing body members are becoming more common in local public spending bodies, and in many cases they are open to public inspection, although the precise arrangements vary. Governing body members are of course volunteers who give freely of their time and expertise, and are entitled to a degree of privacy. We believe that a balance can be struck between that right, and the right of the public to be reassured that conflicts of interest are made known and resolved in the appropriate manner.

38. Like local councillors, who are subject to very strict legal rules on conflicts of interest, the members of governing bodies of local public spending bodies are likely to be involved in the award of contracts and appointments. The local focus of many such bodies creates the possibility that contractors and staff may be personally known to board members, or that board members may be directly bidding for work. An open register of interests and clear procedure should help allay any concern that might otherwise result. A requirement to disclose material transactions with 'related parties' is now part of generally accepted accounting practice (Financial Reporting Standard 8 of the Accounting Standards Board), and this principle applies with particular force when public money is involved.

39. The arrangements in public bodies for the registration and disclosure of interests are set out in the Government's recent consultation paper². The consultation paper suggests that public bodies should have open registers which include direct and indirect pecuniary interests which members of the public might reasonably think could influence judgement. Organisations should consider whether non-pecuniary interests which relate closely to their activities should also be included.

40. The consultation paper also suggests that non-pecuniary interests which have not been registered should be disclosed at meetings if they are relevant to the subject under discussion. Disclosure would also cover the interests of immediate family members, those living in the same household, and other connected persons, which would not form part of a register. A board member whose interest is clear and substantial should not take part in the discussion and should normally withdraw from discussion and voting on the item in question. We believe that these recommendations form a sensible basis for registers of interests in the bodies we are considering in this report, which should adopt them. It is important that the chief executive, clerk or another member of the professional staff should have a responsibility for advising the Chair and members on this issue, though responsibility for declaration and withdrawal must lie principally with the individual concerned.

R1. The principles of good practice on appointments, training, openness, codes of conduct and conflicts of interest, set out here and in our first report, should be adopted with suitable modifications across the sectors covered in this report.

Blowing the Whistle

41. All organisations face the risks of things going wrong or of unknowingly harbouring malpractice. Part of the duty of identifying such a situation and taking remedial action may lie with the regulatory or funding body. But the regulator is usually in the role of detective, determining responsibility after the crime has been discovered. Encouraging a culture of openness within an organisation will help: prevention is better than cure. Yet it is striking that in the few cases where things have gone badly wrong in local public spending bodies, it has frequently been the tip-off to the press or the local Member of Parliament — sometimes anonymous, sometimes not — which has prompted the regulators into action.

42. Placing staff in a position where they feel driven to approach the media to ventilate concerns is unsatisfactory for both the staff member and the organisation. We observed in our first report that it was far better for systems to be put in place which encouraged staff to raise worries within the organisation, yet allowed recourse to the parent department where necessary. In the course of the present study, we received evidence from the independent charity, Public Concern at Work, which specialises in this area. They proposed that an effective internal system for the raising of concerns should include:

- a clear statement that malpractice is taken seriously in the organisation and an indication of the sorts of matters regarded as malpractice
- respect for the confidentiality of staff raising concerns if they wish, and the opportunity to raise concerns outside the line management structure
- penalties for making false and malicious allegations
- an indication of the proper way in which concerns may be raised outside the organisation if necessary.

43. We agree. This approach builds on some aspects of existing practice, for example the duty of accounting officers in education bodies to notify the funding councils of the misuse of public funds. It goes further by inviting *all* staff to act responsibly to uphold the reputation of their organisation and maintain public confidence. It might help to avoid the cases when the first reaction of management faced with unwelcome information has been to shoot the messenger.

R2. Local public spending bodies should institute codes of practice on whistleblowing, appropriate to their circumstances, which would enable concerns to be raised confidentially inside and, if necessary, outside the organisation.

44. In the next three chapters we examine the main issues sector by sector, before drawing some general conclusions in chapter 6.