HM Treasury

Cabinet Office

Corporate governance in central government departments:

code of good practice

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Contents

Foreword

Good corporate governance is fundamental to any effective and well-managed organisation – be it private or public sector – and is the hallmark of any corporate entity that is run accountably and with the long-term interest clearly in mind. Ensuring that central government departments are run as efficiently and effectively as possible is central to this goal. By holding our public servants to the highest standards and providing them with strong, robust frameworks in which they can thrive while delivering public service, we can build a government that operates as smoothly as possible for the everyday citizen.

This updated *code of good practice* builds on the last code published in 2011, and reflects the steps we have taken since then to make government as efficient and effective as possible for the taxpayer. Since 2011, there has been a step change in the governance of central government departments. Secretaries of state now chair departmental boards, bringing a high level of focus on issues such as performance, risk management, talent and the challenge and scrutiny of major projects.

This departmental board model is now embedded as a key element of the fabric of corporate governance across central government departments. Boards help departments and the government succeed in achieving their aims by encouraging good planning, managing performance regularly and raising delivery capability. They also help foster a culture of openness and good governance by providing a clear oversight structure.

There are now over eighty non-executive board members across central government departments, bringing diverse experience from senior positions in large and complex organisations outside government. The introduction of the new role of Government Lead Non-Executive, supported by a team in the Cabinet Office, has helped to co-ordinate this network and encourage successful collaboration between departments.

Indeed, as the Prime Minister has recognised, the departmental board model has been "an overall success, bringing useful external expertise and challenge into the running of departments". That is why it is important that the code supports the departmental board model as it continues to embed further in all departments across Whitehall.

We are determined that this code will continue to support good governance within the public sector – supporting the government's commitment to build a country that works for everyone and where everyone plays by the same rules.

RT HON BEN GUMMER MP
Minister for the Cabinet Office and Paymaster General

RT HON DAVID GAUKE MP
Chief Secretary to the Treasury

Departmental board model: summary

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. 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.

Box 1.A: Extract from the Ministerial Code

"Secretaries of state should chair their departmental board. Boards should comprise other ministers, senior officials, a Lead Non-Executive 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."

Source: Ministerial Code, Cabinet Office, December 2016, paragraph 3.5[1]

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, effectiveness, accountability and sustainability.

Boards advise on, and supervise, five main areas: strategic clarity, commercial sense, talented people, results focus, and management information.

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 assurance (the responsibilities of which will include reviewing the comprehensiveness of assurances and integrity of financial statements), and nominations (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). The board should also ensure that governance arrangements are sufficiently scrutinised; this responsibility may be discharged by the board itself or by a board sub-committee (such as the audit and risk assurance committee or a nominations committee), as the board sees fit.

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[1] www.gov.uk/government/publications/ministerial-code

Board members' roles and responsibilities

Principles of public life

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

Chair of the board

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.

Lead non-executive board member

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-executive board members 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 Lead Non-Executive.

Non-executive board members

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 large and complex organisations. In order to achieve representative boards with broad-based experience, departments will aim as far as possible to ensure that there is at least one non-executive board 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, 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 single departmental plan, and in relation to recruiting, appraising and ensuring appropriate succession planning of senior executives. They will form committees responsible for audit and risk assurance, and nominations. To share best practice and to ensure departments learn from the successes and failures of comparable organisations, they will meet regularly with other non-executive board members across government and the Government Lead Non-Executive.

Departments will support this work by providing appropriate management information and direct access to officials outside of 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, led by the Government Lead Non-Executive, they will also be able to feed their views back to the Prime Minister.

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 the Cabinet Secretary and Head of the Civil Service that the permanent secretary should be removed from his or her post.

Government Lead Non-Executive

The Government Lead Non-Executive will meet regularly with departmental lead non-executive board members, individually and as a collective, and feed their views back to the Prime Minister; Cabinet Secretary and Head of the Civil Service; and the Chief Executive of the Civil Service. The Government Lead Non-Executive will report to Parliament through an annual report to the Public Administration and Constitutional Affairs Committee. This report will include the key concerns of the non-executive board member network and provide feedback on policy implementation. It will also collate examples of best practice in the work of boards and non-executive board members. The report will also be provided to the Prime Minister; Secretaries of State; Cabinet Secretary and Head of the Civil Service; and Chief Executive of the Civil Service.

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

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 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

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*

and risk assurance committee handbook, the *Ministerial Code*, the *Civil Service Code*, the *Code of conduct for board members of public bodies,* and *Partnerships between departments and arm's length bodies: code of good practice*.

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

This is a refreshed version of the previous code, which was published in 2011. This revised edition of the code does not contain fundamental changes, but brings certain aspects of the 2011 code up to date. The code is intended to be a living document, which will evolve in line with best practice.

Relevant government policy on how the principles should be implemented is clearly identified throughout the code, with departments expected to apply the principles and supporting provisions to suit their business needs as appropriate. 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),[1] which are encouraged to adopt the principles in the code wherever relevant and practical. 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,[2] 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

This code is based on principles. Departments should apply the principles of the code to meet their business needs. 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. Departures from this 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[3] 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.[4]

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[1] Non-Ministerial Departments (NMDs) which have a relationship with their sponsor department similar to its other ALBs should apply this code as an ALB. Other NMDs should apply the code as central departments.

[2] www.frc.org.uk

[3] The governance statement 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.

[4] *Corporate governance in central government departments: code of good practice – guidance note*, available on www.gov.uk

Parliamentary

1 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 ALBs.

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. 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 accounting officers who are charged with ensuring resources are used as Parliament intends. The accounting officer of a central government department may look to the Cabinet Secretary and the Head of the Civil Service for support in this role.

1.8 The accounting officer 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:

- regularity and propriety

- 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 Accounting officers should routinely scrutinise significant policy proposals or plans to start or vary major projects and then assess whether they measure up to the standards set out in Chapter 3 of *Managing Public Money*, so that they can identify any discrepancy. The accounting officer should draw any such problems to the attention of the responsible minister to see whether they can be resolved. If the minister decides to continue with a course the accounting officer has advised against (whether or not supported by the collective decision of the board), the accounting officer should ask for a formal written direction to proceed. An accounting officer may not rely on a departmental board minute as an alternative to a formal written direction.

1.10 The accounting officer should disclose all ministerial directions to the board at the next board meeting, and arrange for the existence of any direction to be published, no later than in the governance statement of the next Annual Report and Accounts, unless the matter must be kept confidential. Directions should not be kept confidential from the board.

1.11 The principal accounting officer, at his or her discretion, may appoint other senior officials in the department as additional accounting officers for certain accounts, requests for resources, or distinct parts of an estimate, and normally appoints the permanent heads of executive agencies and other ALBs as accounting officers for these bodies. The principal accounting officer retains overall responsibility to Parliament for ensuring a high standard of financial management in the departmental family as a whole.

2 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 ALBs.

2.3 The board does not decide policy or exercise the powers of the ministers. The department's policy is decided by ministers alone on advice from officials. The board advises on the operational implications and effectiveness of policy proposals. The board will operate according to recognised precepts of good corporate 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 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

2.4 The board should meet on at least a quarterly basis; however, best practice is that boards should meet more frequently. 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** – shaping the single departmental plan, including strategic aims and objectives; monitoring and steering performance against plan; scrutinising performance of ALBs; 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 reviewing the comprehensiveness of assurances and integrity of financial statements), and nominations (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). The board should also ensure that governance arrangements are sufficiently scrutinised; this responsibility may be discharged by the board itself or by a board sub-committee (such as the audit and risk assurance committee or a nominations committee).

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 also supports the accounting officer in the discharge of obligations set out in *Managing Public Money*[1] for the proper conduct of business and maintenance of ethical standards.

2.8 The board and its members 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. 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

- act corporately and objectively when discharging its responsibilities

- act in the public interest in keeping with the Nolan principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Board members should act in accordance with the *Code of conduct for board members for public bodies*[2]

- support actions to ensure that officials comply with the *Civil Service Code*[3]

- ensure that the department's reporting obligations to the Treasury, Cabinet Office and Parliament are met effectively and efficiently

2.9 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.

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[1] www.gov.uk/government/publications/managing-public-money
[2] www.gov.uk/government/publications/board-members-of-public-bodies-code-of-conduct
[3] www.gov.uk/government/publications/civil-service-code

2.10 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 committee and the audit and risk assurance 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.

2.11 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.

2.12 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 lead minister, as 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 non-executive board members. 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[1]

- other senior officials

- at least four non-executive board members, the majority of whom should be senior people from the commercial private sector, with experience of managing complex organisations. Non-executive board members should be appointed in accordance with the relevant sections of the guidance

3.4 The chair of the board, who will normally be the lead minister, 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.

3.5 Non-executive board members will exercise their role through influence and advice, supporting as well as challenging the executive, and covering such issues as:

- support, guidance and challenge on the progress and implementation of the single departmental plan

- performance (including agreeing key performance indicators), operational issues (including the operational and delivery implications of policy proposals), adherence to relevant standards (e.g. commercial, digital), and on the effective management of the department

- the recruitment, appraisal and suitable succession planning of senior executives, as appropriate within the principles set out by the Civil Service Commission

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[1] Annex 4.1 of *Managing Public Money* explains this requirement and sets out the main duties and responsibilities of the finance director. The term 'finance director' is used in this code to refer to the qualified finance professional who sits on the board with management responsibility for the finance function. It is government policy that all departments should have professional finance directors reporting to the permanent secretary with a seat on the departmental board, at a level equivalent to other board members.

3.6 Non-executive board members will also take an active role in:

- forming an audit and risk assurance committee

- forming a nominations committee

- meeting other non-executive board members across government and the Government Lead Non-Executive 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 Non-Executive, through the network of lead non-executive board members

3.7 In each department, one of the non-executive board members should be designated as the lead non-executive board member. This person should:

- support the lead minister as chair of the board

- meet the other non-executive board members regularly, ensuring that their views are given due weight on the board and the lead minister is aware of any concerns

- ensure that the non-executive board members collectively meet the lead minister alone from time to time

- liaise with the Government Lead Non-Executive (see paragraph 3.9 below)

- play an active role in the cross-government network of lead non-executive board members

3.8 If the non-executive board members believe that the permanent secretary is a barrier to effective delivery, in extreme cases they can recommend that the Prime Minister, lead minister and Cabinet Secretary and Head of the Civil Service, should remove him or her from post.

3.9 The Government Lead Non-Executive, appointed by the Prime Minister, should:

- meet departmental lead non-executive board members, individually and as a collective, regularly

- report to Parliament through an annual report to the Public Administration and Constitutional Affairs Committee. This report will include the key concerns of the non-executive board member community and provide feedback on policy implementation. It will also collate examples of best practice in the work of boards and non-executive board members. The report will also be provided to the Prime Minister; Secretaries of State; Cabinet Secretary and Head of the Civil Service; and Chief Executive of the Civil Service

- act as a non-executive board member of the Cabinet Office board

Supporting provisions

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

3.11 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

- knowledge of the department's business and policy areas

- corporate functions, such as finance, human resources, digital, commercial and project delivery

3.12 The mix and balance of skills and understanding should be reviewed periodically, at least annually as part of the board effectiveness evaluation (see paragraph 4.12 below), to ensure they remain appropriate for the department's board.

3.13 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 an aspiration that half of all new appointees made to public bodies are women. This includes non-executive appointments to departmental boards. However, this is not just about gender; diversity is about encouraging applications from candidates with the widest range of backgrounds.

3.14 The lead minister, taking into account the views of the board, should decide whether the next most senior minister or the lead non-executive board member should chair the board in his or her absence.

3.15 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.

3.16 The board should be informed of government-wide policies and initiatives and challenge officials on the department's compliance.

3.17 Non-executive board members should provide advice, support and informal ongoing feedback to the department's permanent secretary and other civil service board members.

3.18 In consultation with the chair and the department's lead non-executive board member, non-executive board members may take the lead on some of the board's activities. These should be set out in the board operating framework.

3.19 In consultation with the permanent secretary and the lead non-executive board member, the chair may appoint board members who are senior officials or other board members from any of the department's ALBs. Such appointments would be part of the board structure set out in 3.3 and subject to the same selection criteria applied to other board members who are officials or non-executive board members.

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 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 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.

4.4 The nominations 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 committee.

4.5 The terms of reference for the nominations committee will include at least the following three 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

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 2.4 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 non-executive board member, 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 non-executive board members, 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 non-executive board members and the department, including arranging detailed briefing for non-executive board members and meetings between non-executive board members 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 non-executive board member 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 non-executive board member 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 All potential conflicts of interest for non-executive board members should be considered on a case by case basis. Where necessary, measures should be put in place to manage or resolve potential conflicts. 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, all relevant interests of individual board members and 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

- an internal audit service operating to *Public Sector Internal Audit Standards*[1]

- sponsor teams of the department's key 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 non-executive board members 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 processes or controls 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 department[2] 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.

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.

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[1] www.gov.uk/government/publications/public-sector-internal-audit-standards
[2] www.gov.uk/government/publications/orange-book

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 non-executive board member of the board with relevant experience. There should be at least one other non-executive board member 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 and risk assurance 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.

5.15 All boards should ensure the scrutiny of governance arrangements, whether at the board or at one of its subcommittees (such as the audit and risk assurance committee or a nominations committee). This will include advising on, and scrutinising the department's implementation of, corporate governance policy.

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[3] www.gov.uk/government/publications/audit-committee-handbook

6   Arm's length bodies

Principle

6.1 Where part of the business of the department is conducted with and through arm's length bodies (ALBs),[1] the department's board should ensure that there are robust governance arrangements with each ALB board.

6.2 These arrangements should set out the terms of their relationship in accordance with the principles and standards set out in *Partnerships between departments and arm's length bodies: code of good practice*,[2] and explain how they will be put in place to set clear objectives and promote high performance. Appropriate arrangements should also be put in place to safeguard regularity and propriety.

Government policy

6.3 The regular agenda of the departmental board should include scrutiny of the performance of the department's ALBs, as part of general performance management against the department's single departmental plan.

Supporting provisions

6.4 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 host department for performance and the use of their resources (as set out in paragraph 1.8 above), within the established arm's length relationship as set out in the framework document.

6.5 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.

6.6 The board should ensure that the department has a written agreement (in accordance with Chapter 7 of *Managing Public Money* and the principles set out in *Partnerships between departments and arm's length bodies: code of good practice*) with each of its ALBs, which defines clearly how the relationship should work.

6.7 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
- environment in which it operates (e.g. commercial, judicial, advisory)
- partnership model adopted between the ALB and the department

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[1] The term "arm's length bodies" includes executive agencies, non-departmental public bodies and non-ministerial departments. There may also be value in considering the department's governance arrangements for other organisations, such as public corporations and strategic partners e.g. public-private partnerships and private finance initiatives partners.

[2] *Partnerships between departments and arm's length bodies: code of good practice* describes the four key principles for effective partnerships between departments and ALBs (purpose, assurance, value and engagement).

6.8 The written agreement should be reviewed and updated periodically. Certain events may 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 in the host department or a significant change in government policy relating to the ALB's business. Written agreements should be reviewed formally every three to five years.

6.9 The agreement should include clear information about:

- the shared aims and mutual responsibilities, including a management framework and agreed tolerances for meeting performance targets, and actions to be taken where these are not achieved

- the arrangements for reporting and consultation in order to ensure that the departmental board receives information enabling it to monitor the areas specified in paragraph 2.4 above

- the mechanisms to provide the department with assurance on information provided by ALBs on their performance

- the roles and responsibilities of both the department and ALB, along with expectations of support from the other party

- the process for making board and senior management appointments in the ALB

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

6.11 Guidance on the framework documents between departments and ALBs is included in Chapter 7 of *Managing Public Money*.[3]

6.12 Departments should ensure that their relationship with their ALB partners is in accordance with the principles set out in *Partnerships between departments and arm's length bodies: code of good practice*.[4] Where appropriate, departments may also choose to 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.

6.13 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, and support, is proportionate to the size and type of its ALBs and concentrated on those with the most significant risks.

6.14 The department should report annually on the arrangements it has in place for promoting sound working partnerships with its ALBs, which should include an assessment against the principles and standards of *Partnerships between departments and arm's length bodies: code of good practice*. 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.

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[3] www.gov.uk/government/publications/managing-public-money
[4] www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice

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

- delivering in line with departmental single departmental plans

- effective and provide value-for-money

- the most appropriate mechanism for implementing policy objectives

- well governed and accountable for what they do