Birmingham City Council

Group Governance Review

Final Version

25 May 2016

Contents

Executive summary

Background and approach

Birmingham City Council (the Council) is the largest local authority in the UK and has been progressive in the creation of alternative models of delivery for a range of its services, in order to both realise greater benefits for its community and deliver significant cost savings. A number of entities have been created in recent years, forming part of the Council group.

Notwithstanding the fact that significant efficiencies have been achieved through this mechanism, it has meant a foregoing of direct control of those services, increasing the level of risk to the Council. The Council recognises the importance of a good governance framework to underpin these arrangements. It is satisfied that strong governance arrangements are in place at an entity level. However, it believes that central governance arrangements would benefit from a review in order to identify possible improvements. The Council recognises that it must be able to exercise appropriate control and influence over its entities in order for them to contribute to its objectives and manage risks.

As the Council's resources are becoming increasingly constrained, it is looking more closely at how it uses alternative delivery models to support its long term ambitions. This is particularly important as it moves further towards a commissioning model for services.

The Council has therefore decided to commission this review into its partnership arrangements with its entities. In particular, it would like to understand how its arrangements compare to the corporate sector. In order to address this, we have gathered information on governance arrangements from a range of our corporate clients and also referred to our research gathered for the purposes of our thought leadership publications on alternative service delivery models, corporate governance, not for profit governance and public sector governance. These studies compared a range of organisations within each sector and make comparisons to recognised best practice, for example the UK Corporate Governance Code.

We have reviewed a cross section of arms' length entities of the Council, all of which are wholly owned subsidiaries except for Service Birmingham, which is an associate. They comprise:

- Acivico Limited;
- Birmingham Museums Trust;
- Innovation Birmingham;
- Marketing Birmingham; and
- Service Birmingham.

We have reviewed how each entity reports into the Council through:

- a review of a sample of documents produced by each entity to ascertain what information is prepared, by whom and by which deadline. This has included a sample of management accounts, any Terms of Reference documents, internal audit review reports and risk management information.
- a number of interviews with those with governance responsibilities within each entity. A full list of interviewees across the entities is provided in Appendix 5. We would like to record our thanks to all individuals who participated in this review.

We have considered how the information received from the entities is disseminated, reviewed, and escalated by the Council. Our scope includes the reporting structure and hierarchy for escalation purposes and the extent to which reporting conforms to the Council's key performance measures.

Executive summary

Findings and recommendations

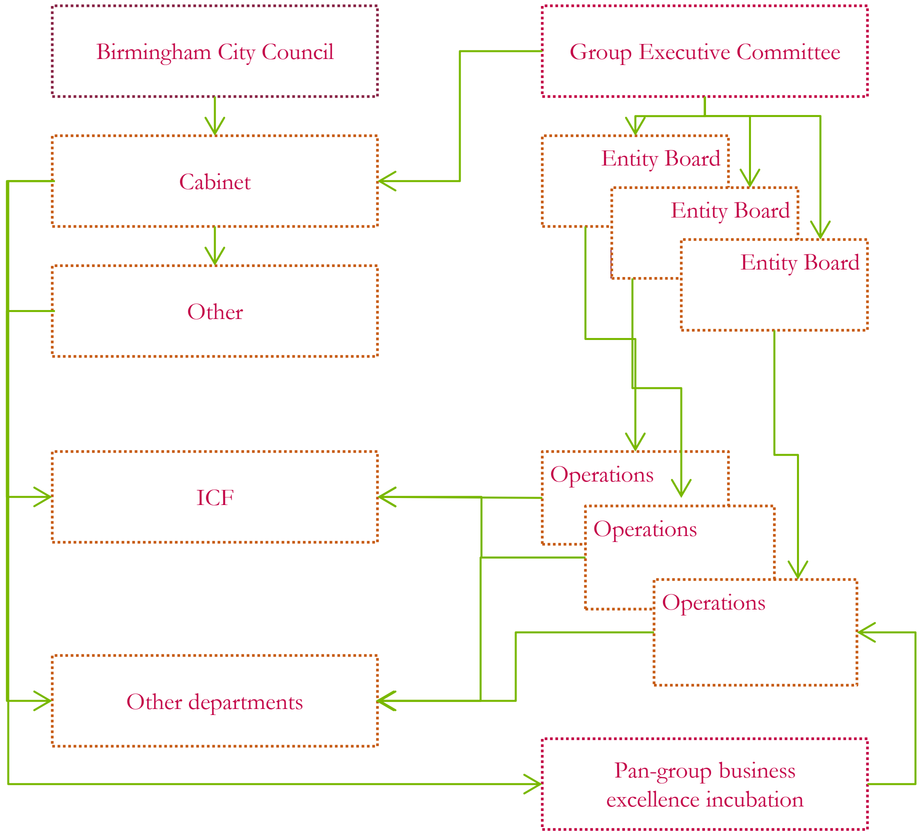
The existing governance structure operates through a mechanism of holding entities to account through officers within directorates of the Council, in particular the ICF. The nature of this interaction is contract-management style and entities are closely scrutinised by these functions. Insufficient time is devoted to future planning and ensuring that the longer term objectives of the Council are being considered.

In order to move further towards a commissioning model with more commercially–orientated partners who will grow the Council's businesses, a structure to support this change will be necessary.

The proposed structure (shown opposite) replicates best practice in the corporate sector. The two key features comprise:

- **A Group Executive Committee to** agree the business plan and ensures alignment to the Council's strategic objectives and long term plans. Its members report into the Cabinet. The composition of this committee will be a combination of elected members (as the Council is a shareholder) and Non-Executive Directors (NEDs). It will oversee all group entities.; and
- **A pan-group business excellence incubator** to enable group entities at an earlier stage in their lifecycle to benefit from peer support. This expertise will be provided by individuals from other entities across the group that are in a more advanced stage in entity development.

The entity boards will remain a combination of elected members and NEDs



Report

Background

Birmingham City Council (the Council) is the largest local authority in the UK and has been progressive in the creation of alternative models of delivery for a range of its services, in order to both realise greater benefits for its community and deliver significant cost savings. A number of entities have been created in recent years, forming part of the Council group.

Notwithstanding the fact that significant efficiencies have been achieved through this mechanism, it has meant a loss of direct control of those services, increasing the level of risk to the Council.

The Council recognises the importance of a good governance framework to underpin these arrangements. It is satisfied that strong governance arrangements are in place at an entity level. However, it believes that central governance arrangements would benefit from a review in order to identify possible improvements. The Council recognises that it must be able to exercise appropriate control and influence over its entities in order for them to contribute to its objectives and manage risks.

As the Council's resources are becoming increasingly constrained, it is looking more closely at how it uses alternative delivery models to support its long term ambitions. This is particularly important as it moves further towards a commissioning model for services.

The Council has therefore decided to commission this review into its partnership arrangements with its entities. In particular, it would like to understand how its arrangements compare to the corporate sector. In order to address this, we have gathered information on governance arrangements from a range of our corporate clients and also referred to our research gathered for the purposes of our thought leadership publications on alternative service delivery models, corporate governance, not for profit governance and public sector governance. These studies compared a range of organisations within each sector and make comparisons to recognised best practice, for example the UK Corporate Governance Code.

Findings: Review of the Council's governance structure

The Council

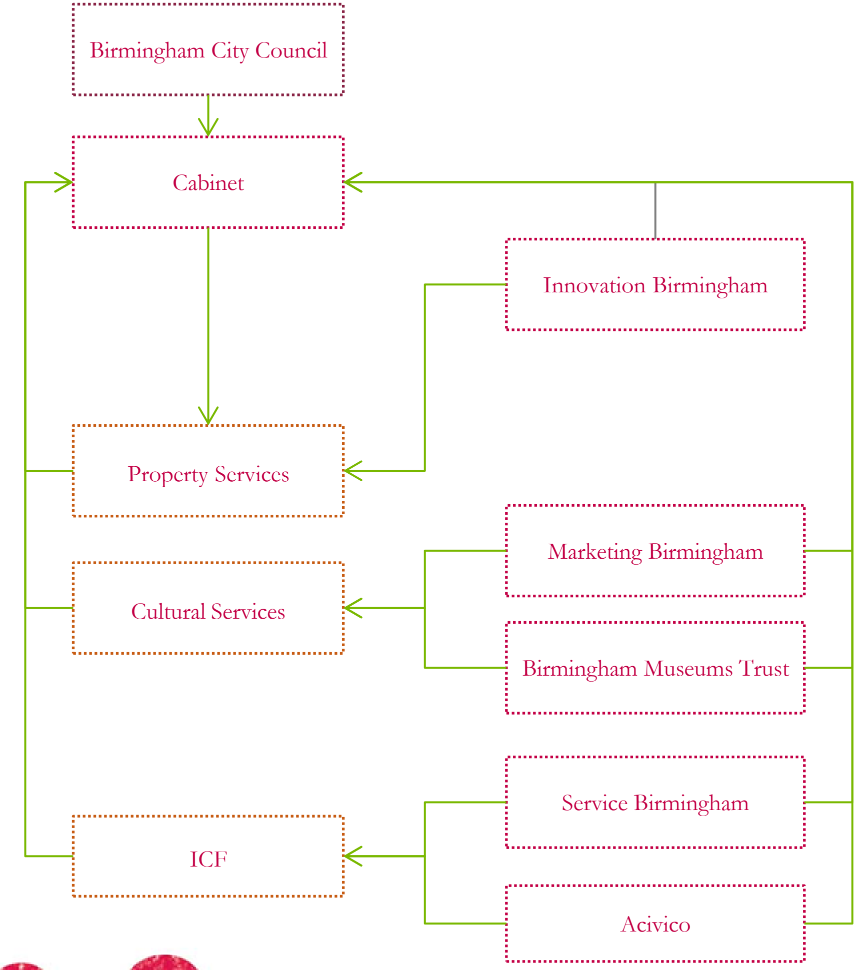
The role of the 'corporate' board is undertaken by the Cabinet. Entities are managed and monitored by the Council department that most closely relates to their area of business, apart from the Intelligent Client Function (ICF) which is staffed by procurement and contract management specialists.

The Council does not have a defined overarching governance structure for its group entities. A Cabinet member is nominally appointed to each entity's board, but as a director has a fiduciary duty to the entity. This presents a potential conflict of interest.

We have found in our review that the Council's role with respect to the strategic business development of its entities has not been exercised in all cases. We have also found that responsibilities for exercising each entity's risk management, performance management and strategic development are not clearly communicated by the Council to the entities.

Approaches to the oversight of operational management vary, with some entities reporting through the ICF and others through the Council's business function that most closely relates to the entity. The extent of operational involvement is not specified or agreed by the Council and its entities. The day-to-day management from an operational perspective at the Council is managed at business function level, reporting to the Cabinet, often by-passing senior management. This contributes to a disconnection of the operational side from strategy. Ad hoc decision making that takes place may not therefore be in the overarching interests of the Council.

As a result, the Council cannot be satisfied that its entities are operating in its best interests and the lack of clarity of objectives across the Council's group means that the entities are not necessarily aware of the Council's objectives.



Findings: Review of entity level governance structure

Acivico

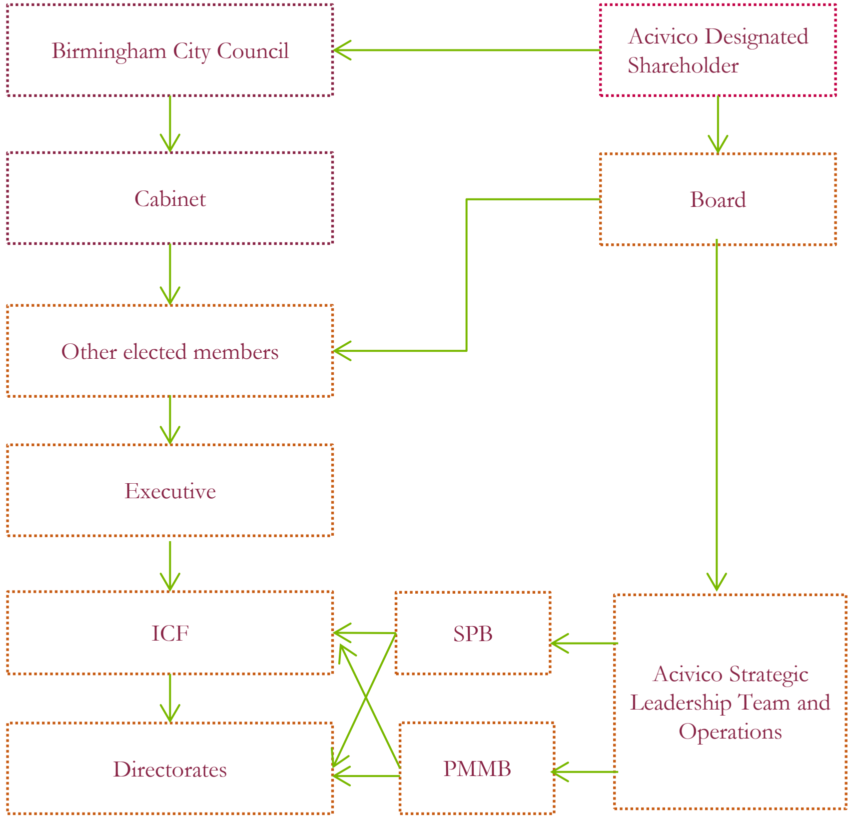
Acivico is a limited company that provides design and construction, facilities management and building consultancy services to the Council and other public and private sector companies. It was incorporated three years ago is a wholly owned subsidiary of the Council, operating as a Teckal company, meaning that it is able to trade services back to the Council unfettered by procurement regulations and may trade up to 20% by turnover of its services elsewhere. We understand that it is currently trading externally at approximately 6% of turnover. In two years the contract will end, after which point the Council will not guarantee it will commission services and Acivico will become more commercially exposed.

The relationship between the Council and Acivico Board is managed at an operational level only via the Strategic Partnership Board and Performance Monitoring and Management Board. There is no audit committee but this has been recognised as a requirement and one is being planned. The Acivico Board draws its membership from the Cabinet, other elected members of the Council and externally recruited non-executive directors (NEDs).

The Council's Intelligent Client Function (ICF) sits within the Procurement Function and this team monitors the performance of Acivico. This is in the style of a contract management partnership, rather than a shareholder relationship by a parent company. The level of operational control exerted has been high, as it has been a fledgling business, for example it has seconded staff to the company to provide support. This level of control has focused on the performance of Acivico, rather than future planning.

The structure in place for Acivico is the closest to corporate best practice because it has both a Strategic Partnership Board (SPB) and a Performance Monitoring and Management Board (PMMB). However, we understand that the SPB in reality is inward-looking and operational, rather than addressing wider strategic issues.

The Council's CEO is specified as the shareholder representative in Acivico's constitution.



Findings: Review of entity level governance structure

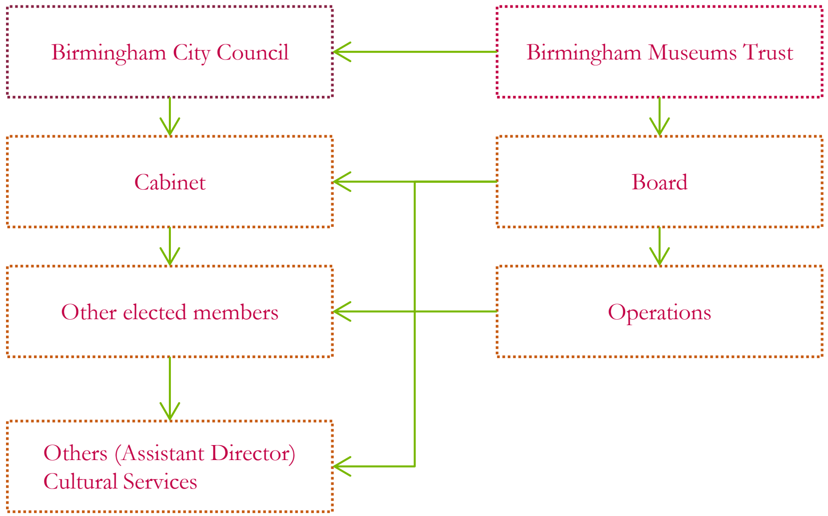
Birmingham Museums Trust (BMT)

BMT is a company limited by guarantee and a registered charity wholly-owned by the Council. In April 2012 it was established as an independent charity. It merged with ThinkTank, Birmingham Science Museum, to become an independent trust, responsible for managing all museum sites and collections owned by the Council. One of the reasons for the relationship being contractual rather than grant-based was because of the VAT advantage (80% rate relief available through this vehicle). There is a contract for services in place between the Council and BMT. Additionally, BMT receives funding from other sources which means that it is accountable to a range of funders; not solely the Council. Its other main funder is Arts Council England.

BMT's link with the Council is through the Cultural Services department. There is one agreement covering provision of management services and a separate lending, acquisition and disposals policy. An internal governance review has recently taken place at BMT and a new committee structure was implemented in April 2015 as a result.

BMT's articles allow the Council to nominate two directors onto the Board, which have been to date been elected members. The Cabinet Member for Skills, Learning and Culture receives the Board papers. The Assistant Director of Cultural Services attends Board meetings as an observer. and acts as the operational liaison point with BMT. The Executive Director of BMT has responsibility for its operational management and is a qualified Senior Museums Professional who advises the Board and Council in this capacity on museum related matters.

The corporate priorities of the Council are embodied in the annual service contract and reflected in BMT's Strategic Plan with performance reviewed quarterly. However, it was not from those we interviewed in our review the degree of strategic alignment between the Council and the Trust.



Findings: Review of entity level governance structure

Innovation Birmingham

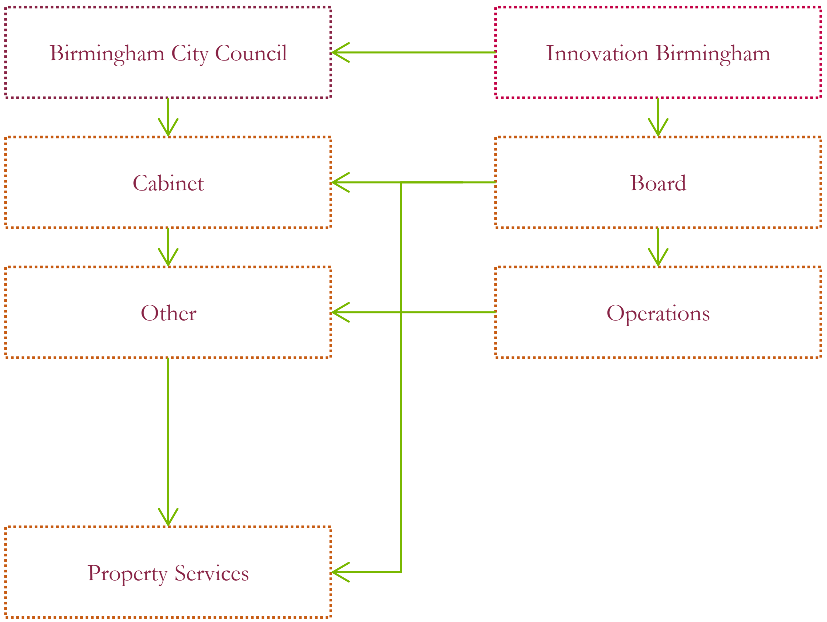
Innovation Birmingham Limited (IBL) is a wholly owned company of the Council. It is responsible for supporting Birmingham's technology and start-up community.

IBL connects into the Council through Property Services due to the volume of property it manages, although this is only one aspect of its work and it is required to access other parts of the Council for other aspects of its business.

IBL's link with the Council is at Cabinet member level on the Board.

The operational management of the contract company is primarily at Director level in the Property Services Department, although IBL's management also has contact with other parts of the Council as necessary depending on the activity. It is not clear where the lines of communication should be for the various interactions that IBL requires with the Council.

As with the other entities in this review, the strategic interaction (through executive management) is missing and therefore there is a risk that decisions are not being made that align to the overall objectives of the Council.



Findings: Review of entity level governance structure

Marketing Birmingham

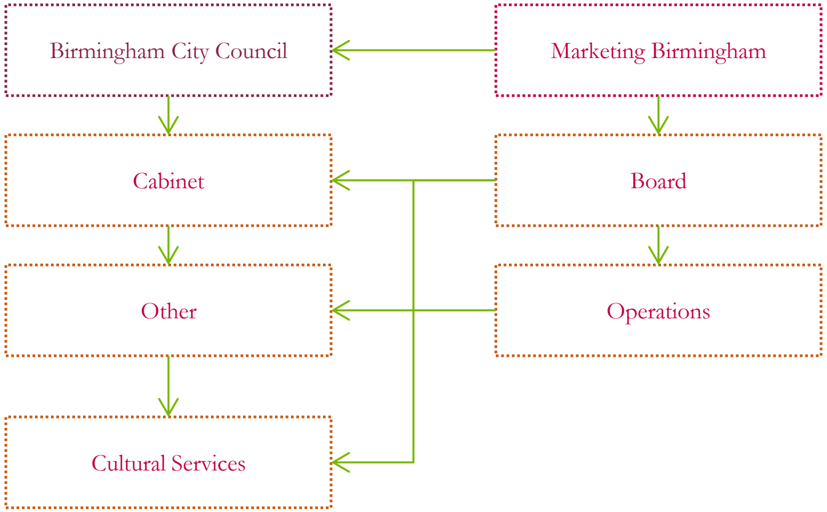
Marketing Birmingham is the city's strategic marketing partnership, originally set up to promote the City's visitor offer. Its remit now includes inward investment and also strategic marketing.

It is a company which is funded by the public and private sectors, including Birmingham City Council, European Regional Development Funding and some 400 local companies.

Marketing Birmingham's link with the Council is via two members appointed through the usual Council process and while the Leader is currently one of the nominated directors, that will not necessarily be the case in perpetuity. He currently shares responsibility for the portfolio covered by Marketing Birmingham's contract with the Deputy Leader.

The operational management of Marketing Birmingham is at Assistant Director level in the Cultural Services department. There is a contract in place which is managed through a contract management group. The contract sets out the basis on which the activities contribute to the Council's strategic objectives.

As with the other entities in this review, the senior management link is missing (at Executive Director level) and therefore there is a risk that decisions are not being made that align to the overall objectives of the Council.



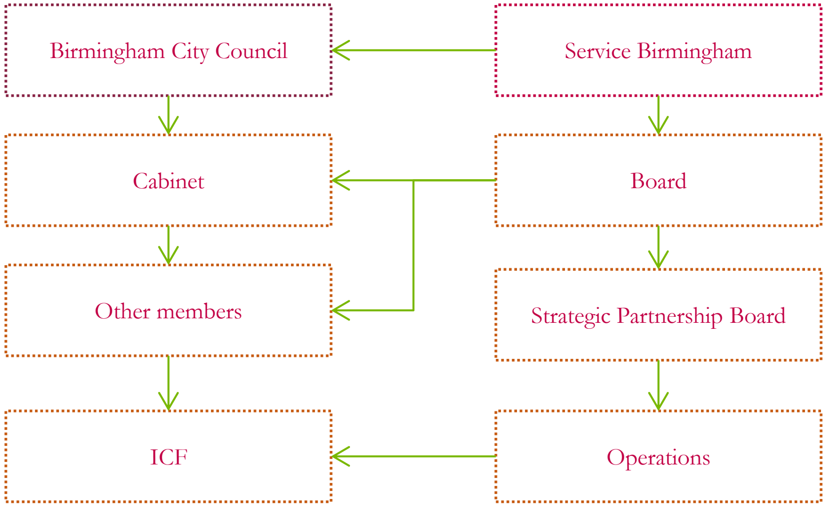
Findings: Review of entity level governance structure

Service Birmingham

Service Birmingham (SB) is a Joint Venture (JV) between the Council and Capita. There are more structured and formal arrangements in place here than the other entities under review, due to the JV. There is a profit share arrangement.

The JV Board runs the business at an operation level. There is also a Strategic Partnership Board. This covers partnership development, escalation of issues and future plans. The Strategic Partnership board oversees the strategic direction of the JV.

The relationship with the Council is managed through the ICF. It is therefore a contractual style relationship, focusing on the performance against indicators specified in the contract.



Summary recommendation: Group structure

Findings and recommendations

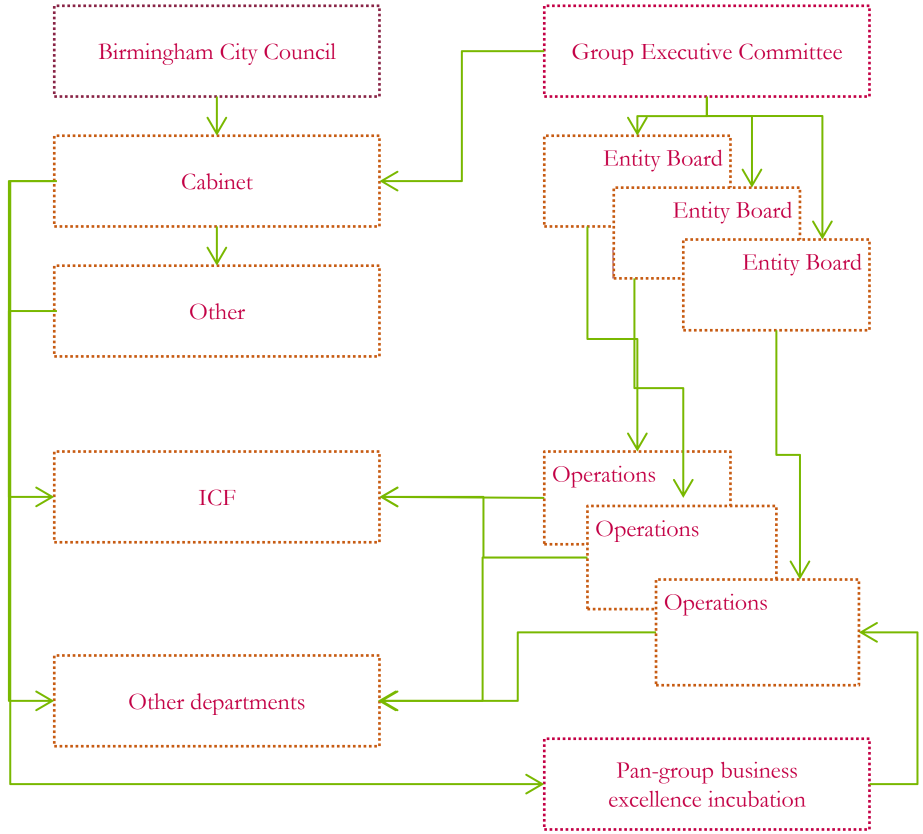
The existing governance structure operates through a mechanism of holding entities to account through officers within directorates of the Council, in particular the ICF. The nature of this interaction is contract-management style and entities are closely scrutinised by these functions. Insufficient time is devoted to future planning and ensuring that the longer term objectives of the Council are being considered.

In order to move further towards a commissioning model with more commercially–orientated partners who will grow the Council's businesses, a structure to support this change will be necessary.

The proposed structure (shown opposite) replicates best practice in the corporate sector. The two key features comprise:

- **A Group Executive Committee to** agree the business plan and ensures alignment to the Council's strategic objectives and long term plans. Its members report into the Cabinet. The composition of this committee will be a combination of elected members (as the Council is a shareholder) and NEDs. It will oversee all group entities from the Council's perspective i.e. will not have full control of the entities. A suggested Terms of Reference document is shown in Appendix 10.; and
- **A pan-group business excellence incubator** to enable group entities at an earlier stage in their lifecycle to benefit from peer support. This expertise will be provided by individuals from other entities across the group that are in a more advanced stage in entity development.

The entity boards will remain a combination of elected members and NEDs.



Summary recommendation: Group structure (cont'd)

This structure follows the best practice examples shown in the appendices and summarised opposite. using the example of the Norse Group. It is important to bring independent commerciality to the group and provide a standard framework for managing it, taking into account the individual business area of each of the entities and the stage of maturity of each entity. The structure will:

- increase accountability of each entity board and allow them a clear route to the group for reporting and strategic direction.
- bring consistency and hold all boards to account on the same principles.
- provide a support network to encourage growth and innovation.

We recommend that entity board chairs should all be independent NEDs and responsible for appointing other board members, selecting those with the relevant skills from the wider business community. This is not essential but important to ensure that commerciality is promoted. Elected members will retain directorships in each entity board to represent the Council as shareholder.

In order to ensure that sufficient support is provided to the entities, the pan group business incubator will provide support as required to enable entities to grow and achieve their objectives. It could also act as a generator and challenge point for new business ideas that the Council may be considering. This will be delivered depending on the need of the entity and the stage that it has reached in its lifecycle.

Best practice groups also follow the principles of BS11000 (the British Standard for Collaborative Working Relationships) to underpin their governance arrangements. This sets out the behaviours of successful partnerships from the initial set up to the finalisation. The key features are shown in appendix 9.

The above approaches will support the Council to realise greater benefits from its group entities as its moves further towards a commissioning model.. This in turn will increase the opportunity for cost reduction and revenue generation for the Council as its entities more effectively work in the Council's interests.

The Norse Group - founded in 2002 and is a wholly owned company of Norfolk County Council. It is by far the largest and most successful local authority company in the country. Key governance factors are:

- the board of Norse consists of 5 directors. These are the directors of the group companies and two council appointees, one of which is the chair. The two council appointees have double votes and therefore have control of the company decisions.
- a shareholder committee which includes the nominated shareholder. This committee has oversight of the company and receives a quarterly report when it meets.
- the use of advisory boards for key decision making areas. Membership comprises the managing directors of the companies and commercial non-executive directors. The advisory boards provide additional support on key decisions.

Detailed findings and recommendations

Area for consideration	Finding	Recommendations
Roles and responsibilities	• Entity board composition is broadly in line with corporate best practice i.e. the number and proportion of executives and non executives. • Non executive board members are experienced individuals drawn from the relevant business sector within which the entity operates. • The Council's Cabinet performs the equivalent role of the Board of a corporate organisation. It determines the Council's appointments of entity boards where it is in control, but this is not the case for some e.g. BMT as it is an independent charity. • All of the entities we reviewed include Cabinet members and other elected members, as well as Senior Management of the Council and Independent board members drawn from relevant business sectors on their boards. Cabinet members have a duty to the Council to ensure proper use of public funds for the benefit of the community, but also to the entity as its directors. This may create conflicts of interest and potential risk for the Council and the individuals concerned, for example if a commercial decision is taken that results in the failure of that entity. We have not found any evidence of such conflict in our review, but it is a risk that the council and the individuals concerned should be aware of when fulfilling entity board roles.	• Articulate clear definitions of roles and responsibilities for board members where there is a potential conflict of interest. This will become increasingly important as the Council widens its use of alternative delivery models and becomes more ambitious in their use. • Provide guidance to members and officers considering becoming a director of an entity on their risk exposure and potential financial liabilities. • When appointing elected members to entity boards, agree that any potential conflicts are identified between freedoms to disclose information back to the Council and their board directorship role. We note that BMT observes the advice from the Charity Commission in relation to independence which can be found at https://www.gov.uk/government/publications/independence-of-charities-from-the-state-rr7 • Adopt the group executive structure to reduce the risk of the Council not being aware of activities that it deems unacceptable (see appendix 10).
	• The Council generally manages its entities using a contract management approach, regardless of the nature of these entities e.g. wholly owned companies or joint ventures. • This results in the entities being treated as arm's length departments, rather than standalone entities. The Council has adopted this approach because it feels that it needs to control the entity to ensure that it delivers according to expectations eg the level of surplus required by the Council, particularly where it feels that performance is not yet at a satisfactory level. • There is a confusion among the entities and within the Council, with some elected members acting as officers and vice versa. For example, some members can become involved in the detail of operations of a subsidiary. • Service level agreements, which set out the expectations of each partner, are in place for some, but not all, entities. This means that there is a lack of clarity regarding responsibilities. • Some entities have contracts with the Council, for example Service Birmingham. These contracts contain information regarding how the entities should collaborate, but this information is not easily accessible.	• Agree and document a Memorandum of Understanding (MOU) between each entity and the Council, as a framework document to underpin the partnership and set out the method by which they will collaborate. • The MOU should comprise a standard version for smaller entities but will need to be more specific ones for larger entities. The MOU should set out roles and responsibilities and details of how the parties will work together to support their corporate objectives. It will cover assurance matters including the Audit Committee, Internal Audit and External Audit as well as operational management and risk management.

Detailed findings and recommendations

Area for consideration	Finding	Recommendations
Roles and responsibilities (continued)	• The Council, like other local authorities, uses the Teckal exemption for trading companies to allow them the opportunity to trade their services back to the Council unfettered by procurement regulations. This shield from full competitive market forces provides the opportunity for fledgling businesses to establish themselves, but it also may stifle commercial development. • As the Council reduces in size over time and is commissioning services in different ways, its direct control over the delivery of services will reduce and entities' responsibility will increase.	• Encourage a more commercial and independent operation of each entity when it is at a suitable stage in its lifecycle with clarity on when the Council believes that the entity has reached the point where it can move on from 'incubation' stage. This can be achieved by ensuring that the entity has its own business plans which are subject to challenge and scrutiny by an independent committee, such as an executive committee, that reports into the Cabinet.
Government framework	• Some entities have articulated clear aims and objectives that are aligned to the Council, but not in all cases (for example Acivico). They may have been aligned at the outset, but have diverged over time. • The Council may therefore not be in a position to make decisions that are aligned to both parties' objectives .	• Review the Council's original rationale for setting up each entity, for example to increase efficiency, deliver increased revenues or access wider funding streams. Consider whether the purpose of the entity remains to be relevant; it might now be more effective to bring the service back in-house, deliver it through an alternative model or stop providing the service completely. In strong commercial organisations, routine review of the rationale and strategic fit of group entities is essential.
	• The Council is establishing its vision in the context of the anticipated level funding in 2021.	• Include the potential options for the Council and its entities in the vision statement. Ensure that its aspirations for itself and its entities are articulated and communicated across the group. For example, does the Council see a continued role for each entity in its future operating model, or does it see them become more at arm's length as it moves further towards a role of commissioner of services?
	• The Intelligent Client Function (ICF) is within the Council's procurement function and it manages some, but not all, of the entities within our scope. Other parts of the Council are responsible for the relationship with some of the entities, for example the Culture team liaise with the Museums Trust and Marketing Birmingham. • The use of an Intelligent Client Function is a recognised good practice model. It represents best practice for outsourced partnerships because it prevents the loss of corporate memory in relation to the delivery of the service in question and helps the organisation ensure that the entity is delivering value. • However, a contract management style of management across all group entities can prevent more autonomous behaviour by the entity and stifle innovation. • At the Council, the ICF role also has the responsibility for holding entities to account against Council contract requirements and/or commitments	• Review the conduit structure between the Council and its entities to ensure that it is appropriate for the stage that the entity has reached in its lifecycle. This should include the strategic and operational interaction between the two.
	• The type of alternative vehicle chosen for the delivery of a service or range of services has an impact on the nature of the relationship between the Council and each entity. For example, BMT is a trust and receives a contract fee. The relationship is both a contractual and commissioning one. If performance of the entity deteriorates, this will make it more difficult for the entity to attract funding from wider sources as the risk to an investor will be greater.	• Consider whether the chosen vehicle remains the most appropriate for the service. For example, another model such as a Community Interest Company (CIC) may be more appropriate for leisure and cultural services as it can help support a more commercial offering.

Detailed findings and recommendations

Area for consideration	Finding	Recommendations
Performance management and monitoring	• Our interviews with stakeholders from entities found that the reduction in numbers of Council staff means that there is less central resource available to review and make decisions relating to entities. • Entities submit performance information but we have not seen evidence of a feedback loop mechanism to identify what action has been undertaken by the Council.. • the Council does not have full, structured visibility of entities' performance which is comprehensive across the Group. • KPIs used to measure performance in some cases are drawn from the contract between the Council and the entity and may not be a useful measure for performance management purposes. There is also a large number of KPIs which in some cases incur non-fee earning costs	• Review KPIs being used for relevance and ensure that these are mutually acceptable and useful. They should then be reviewed on a periodic basis to ensure they remain appropriate. This could mean reporting on additional, more operationally meaningful KPIs that are outside those stated in a contract. • Implement a board to board challenge process to support the process of ensuring that strategic objectives are aligned across the group. This could be structured according to the Council's three directorate areas of People, Place and Economy. • Adopt an approach that strikes a suitable balance between control and freedoms for the entity. Best practice in commissioning of services often demonstrate the 'tight and loose' approach whereby commissioner exercises tight strategic direction, but is looser over operational control which is largely the responsibility of the entity providing the service. In addition, the tone of management control recognises the different cultures in the group and adapt accordingly through the alignment of goals. Relationship management is therefore critical to successful performance, because it is more beneficial to coach entities whilst holding them to account through open and transparent reporting of management information. With a transparent approach to performance management – delivered in partnership with the commissioner – entities can reduce the risk of unintended consequences and thereby increase value to both parties.
Risk management and assurance	• Entities have detailed and up to date risk registers but these do not necessarily reconcile to the Council's own risk register. The Council does not always have sight of key entity risks. • Ensuring risk rankings are evenly assessed is a challenge given the differing nature of the entities compared to the Council, as there are differing risk appetites resulting in varying willingness to bear risks in relation to projects. • The risk is that the Council may be unaware of a potential financial or reputational (or both) risks in relation to an activity of an entity, until it is too late for the Council to take preventative action • This will become increasingly important as the Council's own delivery of services reduces. Entities will be likely to diversify into wider areas, reducing the level of control held by the Council which in turn will present new (and possibly greater) risks to the relationship.	• Implement a more collaborative approach to risk management through the use of a joint risk registers between each entity and the Council. which brings together the key risks of each. This is an approach followed by those exhibiting best practice in the corporate sector. It involves developing a common understanding of the objectives of the partnership and agreed standards of assessing risk so that suitable mitigations can be put in place. This fosters better joint working and allocation of ownership of responsibilities, particularly in large scale operations. • If the shareholder committee structure is adopted, the Council's oversight of the entity's activities will be clearer and is likely to reduce the risk of the Council not having full awareness. • Implement the use of an assurance statement on a quarterly basis for each entity. These should cover the four key areas of finance (including all aspects of external audit and tax), governance (including measures to ensure propriety), operations (such as integrated risk management and future improvements for strategic consideration.

Appendices

Appendix 1
Stakeholders interviewed

	Acivico	Birmingham Museums Trust	Innovation Birmingham	Marketing Birmingham	Service Birmingham	The Council
Management	• Trevor Haynes – Chief Executive • Ray Windless – Strategic Transformation Consultant	• Judith Wilson – Finance Director	• Dr David Hardman – Chief Executive	• Tim Manson – Operations Director	• David Baxter – Business Transformation Director • Bob Carter – Special Projects	• Jon Warlow • Sarah Dunlavey • David Tatlow
Finance	• Karen Pither – Head of Finance		• Rajesh Kumar – Head of Finance		• Rene Vergo - Head of Finance	• Alison Jarrett
Council Lead	• Nigel Kletz	• Val Birchall	• Ashley Innis	• Val Birchall	• Nigel Kletz	

Appendix 2
Good practice in the corporate sector - general

Governance structures are, to a large extent, determined by the regulatory and legal requirements in addition to stakeholder requirements in the corporate sector. For example increased requirements by the Financial Conduct Authority in the United Kingdom in the wake of the financial crisis have to be taken into account, to prevent a wide range of potential corporate governance failings.

Corporate governance is one of the largest unappreciated risks facing groups. Lack of consistency and control over entities is a challenge. Different approaches are taken depending on the needs of a business. Many corporate governance failings have occurred at the subsidiary level. This has led to increased focus on the role of subsidiaries, including the management and reporting of risk, with parent companies seeking to increase understanding of the exact purpose of the subsidiary. Where resources are stretched and where group structures are large and complex, stronger governance is more challenging to achieve.

We have reviewed the governance structures and management of successful businesses including Capita, John Lewis and Marks and Spencers. We have also referred to our own global group of member firms which comprise Grant Thornton.

We have selected these models because we consider there to be parallels with the Council in terms of factors such as diversity of business interests, scale and strategic ambition.

Procedures that corporate entities have put in place to strengthen their governance arrangements include:

- regular internal audit reviews of governance and legal entity management of process and control.
- common director duties for example duty of care exercise independent judgement and manage conflicts of interest.
- company secretary role is used to ensure that directors understand and comply with all requirements. Also responsibility for training.
- greater focus on recruiting the right people for management and board roles.
- rotation of staff to encourage wider business knowledge
- appointment of a specific committee to guide the strategic direction of the group

Structures

Boards are now seen as being more accountable for effectiveness which necessitates greater visibility and active oversight. Boards must provide effective leadership, ensure accountability, direct strategy, oversee operational and financial performance and oversee financials. This enables the correct 'tone from the top' and ownership of strategic ambitions. CEOs who demonstrate good practice articulate their ambitions for the organisation with well-communicated behaviours and publish personalised statements of their vision for the organisation so that their staff follow these behaviours.

Appendix 2

Good practice in the corporate sector – general (continued)

Parent boards spend significant time overseeing risks and business of all subsidiaries. More detailed management is provided through clear delegated approval mechanisms for action relating to the entity. It is the parent board's responsibility to control the strategic direction but it is the responsibility of the entity to ensure that it takes ownership and embeds this into their own policies and procedures.

Management's role is then to understand and implement the strategic direction from the board. At group level, the focus is on group operations and projects forwards to ensure future growth and profitability. Risks are assessed and compared across the group. The main risk management mechanism is the policy framework.

There is no defined best practice structure for ensuring that the parent company interacts correctly with its subsidiaries. Many group structures have a centralised head office framework into which entities report. Others devolve responsibility to operating divisions who have delegated powers, knowledge of the specific business area and assurance mechanisms in place for compliance monitoring This is clearly mandated from the top of the organisation. Top performing companies recognise that there is a risk of complacency regarding governance and refresh the framework periodically (for example annually) so it remains fit for purpose as the organisation and its entities change.

Globally, experience has found that complex group structures exacerbate issues of governance and management, which has been signified by the demise of the 'conglomerate' style structure. Now very few remain, replaced by corporations with units within its structure which are organised by business type. Groups are constantly challenging the purpose of entities and the risk management, cost control and revenue optimisation opportunities that they bring against the challenges of overseeing them.

Finding the right balance between degree of control and degree of independence is a challenging one. This usually depends on the level of maturity of the entity and the stage it has reached in its lifecycle. For example, fledgling businesses usually are supported in an 'incubation' unit.

Most significant subsidiaries in terms of size have separate boards with a combination of executive and non-executive directors, some of whom also sit on the parent board. This requires care over fiduciary duty, which is supported by clearly articulated remits for each role.

Appendix 3

Good practice in the corporate sector – the Norse group

The Norse Group was founded in 2002 and is a wholly owned company of Norfolk County Council. The group brings together NPS (property consultancy), Norse Commercial Services (facilities management) and NorseCare (a social care provider). These companies are wholly owned subsidiaries of Norse Group. Both NPS and Norse Commercial Services have a significant number of joint venture companies that are partially owned by the companies (80%) and the councils they have entered into partnership with (20 %).

The Norse Group is by far the largest and most successful local authority company in the country and has an annual turnover in excess of £300m. Collectively the group companies employ over 10,000 people nationally and have made significant cost savings and efficiency improvements for the councils involved in the group. This has taken a significant period of time to establish.

Critical success factors include the following:

- the company needs to be freestanding of the council and have the ability to set its own strategic direction and make management decisions without referral back to the council. Freedom is also needed to provide their own back office services as better information and more timely support services are a key driver of change and the reduced costs are needed to compete commercially
- there needs to be an agreement that the company can transition away from the Council's terms and conditions and move towards more commercial terms and conditions that allow it to compete in the market. Norse are clear that this does not mean worse terms and conditions
- the company must be in charge of its own finances and have the ability to reinvest in its services and growth. From the outset, Norse has been able to retain 50% of its profits generated and has used these funds initially as working capital

Over the last few years the profits generated have been increasingly used for capital projects as an alternative to borrowing.

The company must be able to bid for other work. The ability to diversify the services provided and to have greater income base has enabled Norse to increase its service expertise to benefit from economies of scale and to manage short term performance issues or market downturns from a secure financial position. Norse consider that the key benefits of a local authority company will only be delivered if it is allowed commercial freedoms.

Effective governance is key to protecting the councils working with Norse and the company. Over time Norse has established clear governance structure that supports their business but also provides assurance regarding the management of risk. The governance structure has also ensured compliance with the Teckal requirement for Norfolk County Council to retain control. Key factors are:

- the board of Norse consists of 5 directors. These are the directors of the group companies and two council appointees, one of which is the chair. The two council appointees have double votes and therefore have control of the company decisions
- a shareholder committee has been established. This includes the nominated shareholder. This committee has oversight of the company and receives a quarterly report. A six monthly report is also taken to the Council's policy and resources committee. Reports cover strategy, performance, investment and finance
- the use of advisory boards for key decision making areas. Norse are aware that a more usual board structure would include the managing directors of the companies and commercial non-executive directors. The advisory boards provide additional support on key decisions.

Appendix 3

Good practice in the corporate sector – the Norse group (cont'd)

The group structure operates in a manner that minimises risk. In addition to the wholly owned subsidiaries, Norse group includes 26 Joint Ventures and 8 specialist companies. The vast majority of these companies are limited by shares to protect the group and council. The share ownership is 80 per cent Norse and 20 per cent for the council entering the joint venture.

All of the companies have a board which includes three representatives from Norse and two representatives from the council. This provides Norse with a veto over any major strategic changes being considered by the company. The need for this veto is required as Norse underwrite the financial performance of companies

Below each company board there is a liaison board. This consists of the local authority, residents, trades unions and any other interested parties. The companies issue a quarterly report to the liaison board to ensure clear accountability.

Norse recommends that councils steer away from large client functions and will not enter into a contract where there is significant scrutiny from procurement. Norse specifically request a thin client and consider that the liaison boards provide sufficient scrutiny. Often the new company will take on the client function and use this to ensure appropriate reporting to the liaison board.

Norse has made a number of changes to ensure the commerciality and competitiveness of new companies:

- support services directly to the newly established company. At times they may accept the transfer of some support staff but in general it is the responsibility of the council to restructure support services within the council and to absorb any financial impacts.
- flatten management structures – Norse consider that most services transferred across have more management tiers than required
- make system changes – significant efficiency savings can be driven by better information. This includes better budget information, more focus on targets and service performance. This can be used to drive greater accountability

Appendix 4

Benchmarking against corporate good practice

Findings from Grant Thornton's Governance Benchmarking reviews include:

- Management Information: - the Financial Reporting Council (FRC) look for management information to include a mixture of financial and non-financial criteria, measured against targets using KPIs, with a supporting explanation of the relevance of the KPIs, the company targets, pointers of past performance and a discussion of future targets.
- Use of a Balanced Scorecard - for routine corporate reporting this is becoming increasingly common in private and public sector performance management. This usually comprises key performance indicators for finance, workforce, service quality and stakeholder feedback.
- A Shared Approach to Risk Management –this is a feature of high performing organisations. The main elements of an effective shared approach are:
  - Risk identification and assessment: a common understanding of the risks and how they can be managed, based on a shared interpretation of the partnership's objectives
  - Joint risk registers: these provide a useful basis for the above
  - Allocation of risk ownership: clarity about who is carrying which risks, and the requirements for providing information
  - Monitoring risks: good quality monitoring information including the scale of risks and opportunities and how are they being managed
  - Reviewing and managing risks: joint risk-review meetings as an integral part of the partnership performance management arrangements
  - Risk communication: sharing risk assessments to help to avoid different perspectives
- A benchmarking review of FTSE 350 Risk Registers identified that 63.8% were judged to have provided a good or detailed description of their principal risks. The best tend to analyse the company's strategic risks, their impact on the company, the actions taken to mitigate them, and changes to risk exposure.

Appendix 4
Acivico benchmarking

Findings

Roles and responsibilities – The Board, Audit Committee and Internal Audit

- **The Board** – Acivico's Board comprises 7 members. This includes 3 elected members from the Council, the Chief Executive of Acivico and 3 Non-Executive Directors, one of whom is the Board Chair. As the average size of a FTSE 350 Board is 9.5 people, Acivico's board is small in comparison. The ratio of Executive Directors to Non-Executive Directors is again in line with the corporate sector. The average FTSE 350 Company Board, consisting of 9.5 members, comprising one chair, 5.7 NEDs and 2.8 Executive Directors.
- The board meets once a month. This is more regular than FTSE 350 companies who on average meet 8.2 times a year. By meeting 12 times a year Acivico's board align with the 15.4% of FTSE 350 Boards who meet more than 10 times a year.
- There are established Terms of Reference for Directors on the Board. New Board members receive induction training from on their governance responsibilities on appointment.
- **Audit Committee** - Acivico is currently working with the Council's Internal Audit function to establish its own Audit Committee as well as develop its own internal audit function. Acivico has developed a guidance document for its Audit Committee. This document gives a detailed account of the purpose of the Audit Committee, its key functions and powers, responsibilities, reporting lines and membership. Guidance on the Audit Committee's membership stipulates that it:
  - May comprise Board members & independent members
  - Usually the Chair of the Board is not involved in the Audit Committee
  - The chair of the Audit Committee is usually appointed by the Board
- Acivico is working with the Council's Internal Audit function to develop an Integrated Assurance Map which will provide assurance to the Board that appropriate mechanisms are in place in terms of risks, systems, processes and governance. In the meantime, monthly reporting of audit activity and findings to the senior leadership has been implemented.

Appendix 4

Acivico benchmarking

Performance monitoring

Management Information

- **Financial Reporting** – Monthly Financial Performance reports are produced and presented to the Board. They provide an actual against budget breakdown of income and expenditure. There is however, little supporting narrative or analysis to support the data. Overall, by comparison to best practice, it is adequate.
- **Performance Reporting & use of Key Performance Indicators (KPIs)** – Acivico produces extensive and bespoke performance reports, judged against KPIs, that are presented to the board every month. These reports start with a high level KPI dashboard/balanced scorecard that provides an overview of company performance across the key categories and an overall KPI performance graph with supporting high level narrative. They include a review against the balanced scorecard for the measurement of non financial performance. The Performance Report then provides a more detailed analysis of performance across a range of KPI headings. Performance is scored against recently developed quantified targets. However, performance measures do not correspond to the key objective areas as reported in their Corporate Plan Overview of January 2015. There is no evidence of a feedback loop from the Council once it has reviewed the information Acivico submits.
- **Balanced scorecard** - Acivico produces a balanced scorecard in line with best practice, including data analysed against KPIs on performance, sickness, financial performance, client satisfaction, quality and is also broken down via service line.

Appendix 4

Acivico benchmarking

Risk Management and Assurance

- **Risk Register** – The risk register is comprehensive. Acivico refreshes it on an annual basis with monthly reports to the Senior Leadership Team. The detailed descriptions of the key risks, risk ownership, control and monitoring procedures in place and the 'risk rank' scoring mechanism of impact and probability are all in line with best practice.
- **Risk Management Strategy** – Acivico has provided information on an Integrated Assurance Map (IAM) that will comprise its system of internal and external controls. The main purpose of an IAM is to assist senior management in forming a view as to whether the controls implemented within the organisation to manage and mitigate risk have been effective over a period under review. It demonstrates which assurances are being provided and who by, and gives the opportunity to determine if adequate and reliable assurance is planned and being delivered on the areas of the business that matter the most.

Appendix 4

Acivico benchmarking

Business Conduct

- **Alignment of strategy** – The Acivico strategy demonstrates alignment to the Council.
- **Working alongside the Council :**
  - The Strategic Partnership Board (SPB) is the conduit through which Acivico and the Council meet to address the strategic issues that face the Company. This board meets every two months. At this board the Council is represented by a number of Strategic Directors, the Assistant Director of Procurement as well as other senior representatives from Council Directorates.
  - The Performance Monitoring and Management Board (PMMB) meets every month. This meeting, with representatives from Acivico and the Council, covers operational issues and monitor Acivico's performance.

Appendix 4
Birmingham Museums Trust benchmarking

Findings

- **The Board –** BMT's Articles of Association state that the board must consist of between 6 and 14 trustees. The board currently has 12 trustees, higher than the 9.5 best practice average. 2 of these are elected members of the Council, and there are 2 Executive Directors on the board . The remaining 8 trustees are 'Non-Executive' trustees. As such the balance of Non-Executive to Executive Directors is in line with corporate best practice and compliant with the UK Code of Corporate Governance.
- The ratio of Executive Directors to Non-Executive Directors is again in line with the corporate sector.
- BMT's Board of Trustees meet 6 times a year which is below the average of 8.2 meetings a year for FTSE 350 companies. By meeting 6 times a year BMT's Board of Trustees still align with 14.8% of FTSE 350 Boards.
- BMT's internal governance review includes consideration of whether to develop their internal assurance capability through the establishment of an Audit Committee and Internal Audit function. Best practice indicates that individual audit committees are recommended.

Appendix 4

Birmingham Museums Trust benchmarking

Performance monitoring

Management Information

- **Financial Reporting** – Monthly Financial Performance reports are presented at board meetings. They cover annual, YTD and monthly actual, budget, variance and percentage variance across the range of income streams and categories of expenditure. A high level of financial detail is provided. There is however, little narrative or analysis to support the data compared to the average.
- **Performance Reporting & use of Key Performance Indicators (KPIs)** – BMT produces performance reports that are presented to the Board when it meets. These reports are based on quantifiable targets and BMT measures its success against these targets in monitoring its own performance. BMT's performance is broken down into a number of key priority areas. Each priority, as articulated in its Corporate Plan, has key aims, activities and quantified targets. BMT benchmarks its performance against other multi-venue museum services (including trusts such as York) across of range of performance indicators. This includes the levels of various funding streams, the number of sites, visitor numbers, cost per visit and cost per head of population in the regions. Management information also provides a breakdown of visitor demographics and is able to compare these across the various museum sites.

Appendix 4

Birmingham Museums Trust benchmarking

- **The Risk Register** – BMT's risk register is in-line with best practice as articulated in the Treasury Guide to Risk Management. It is a bespoke register as all risks have been developed to relate directly to BMT. The document is live and the status of risks is tracked - as evidenced by the inclusion of closed risks on a separate tab of the register. Risks are reported to the Council monthly.
- The risk register categorises its risks by theme and includes risks that are related to 'strategy and governance.' As well as BMT's central risk register, BMT's risk management strategy is designed so that each department runs its own department-specific risk register. These departmental risk registers are to inform the central register.
- **The Risk Management Strategy** – BMT has developed its own Risk Management Framework. This framework and supporting strategy are articulated in a thorough document which includes management of the risk register and key accountabilities.
- **A Shared Approach to Risk Management** – BMT articulates its Risk Management Strategy in the context of its responsibility to its shareholders and so has an understanding of its commitment to the Council.

Appendix 4

Birmingham Museums Trust benchmarking

Business Conduct

- BMT's recent Business Plan 2014-19 sets out its 'commitments to key stakeholders including Birmingham City Council, Arts Council England and the Heritage Lottery Fund' and therefore acknowledges its governance and reporting responsibilities to the Council.
- BMT's Business Plan sets its own objectives in the context of Birmingham City Council Leader's Policy Statement. It considers the political, economic and social landscape.
- **Working alongside the Council – Structures** – The Articles of Association for BMT specifies that the Council has the right to nominate two Council members or officers as directors. All other directors must be appointed on the basis of their suitability and relevant experience.
- **Working alongside the Council – Practice** – The importance of good governance, and the establishment of effective governance structures, within BMT is openly discussed at board meetings. This is evidenced by the September meeting minutes.

Appendix 4

Innovation Birmingham benchmarking

Findings

Roles and responsibilities

- **The Board** – The board for IBL consists of 9 members, in line with the average for a FTSE 350 companies. The Board has 1 Executive Director and 8 Non-Executive Directors including 3 elected members of the Council, one of whom is the Council Leader. In addition there are 3 further elected members designated as alternatives for the board. The remaining Non-Executive Directors are drawn from a range of high profile positions across the public and private sectors. Further to this the Chief Executive and/or the Assistant Chief Executive of the Council are also in attendance at Board Meetings to ensure the Council is represented at Senior Management level. The CEO of IBL is the only Executive Director on the board. The other Non-Executive Directors are from a diverse range of professions, providing a range of experience and skills to the board.
- **Audit Committee**- The Audit Committee comprises 3 members in line with 28% of FTSE 350 companies. The Audit Committee's terms of reference stipulate that Audit Committee meetings should be held at least once a year.

Appendix 4

Innovation Birmingham benchmarking

Performance monitoring

Management Information

- **Financial Reporting** – Monthly Financial Performance reports are produced and presented to the board. The quality of financial reporting to the board is adequate compared to best practice. It provides a report which covers annual, YTD and monthly actual, budget, variance and percentage variance across the range of income streams and categories of expenditure. A high level of financial detail is provided.
- **Performance Reporting & use of Key Performance Indicators (KPIs)** –The CEO's report that is presented to the Board contains aspects of performance reports relating to non-financial performance criteria. The report contains some occupancy statistics, including percentage of IBL space occupied, percentage churn and the changes to client occupation over the performance monitoring period. There is little evidence of the use of KPIs in measuring performance. Whilst there is a reference to exceeding financial targets in the narrative provided in the financial report, financial and non financial performance targets are not specified. Performance information for non-financial criteria is not clearly linked to specified targets and the targets are not tied to specified strategic objectives.

Appendix 4

Innovation Birmingham benchmarking

Risk Management and Assurance

- **The Risk Register** – IBL's Risk register is aligned to best practice. The majority of the risks are bespoke and are directly relevant only to IBL. The level of detail provided in the threat column demonstrates that sufficient thought and application has been given to the Risk Register. It is a live document and amendments are recorded with a 'date last modified' column demonstrating that risks are reviewed and updated monthly. It groups risks by business objectives and includes risks that relate to governance. There is also a register for 'Immediate Opportunities'. These opportunities are measured by applying the same framework as the risk register and desired outcome, impact analysis and approach for delivery are all recorded. This practice to record opportunities along side threats within the risk register is not considered common in the public sector but is prevalent in the corporate sector and in line with best practice in FTSE 350 companies. The risks and opportunities are discussed as a standing agenda item at the IBL Board.
- **The Risk Management Strategy** – whilst the Risk and Opportunities Register is discussed as a standing agenda item at the IBL Board meeting we have not seen a formal risk management strategy that underpins IBL's approach to risk.
- **A Shared Approach to Risk Management** – there does not appear to be a structured shared approach to risk management or evidence of joint risk management meetings to underpin the risk management strategy.

Appendix 4

Marketing Birmingham benchmarking

Findings

Roles and responsibilities – The Board, Audit Committee and Internal Audit

- **The Board** - Since April 2014 MB's board has comprised 14 members. There are 3 members of the Executive team on the Board including the Chief Executive. The other 11 members of the board are Non Executive Directors drawn from a range of high profile positions across the public and private sectors. The Council is represented on the board by 2 senior elected members (including the Council Leader). The board meets 6 times a year and the average attendance by board members was 74% for 2014. This aligns to the UK Code of Corporate Governance.
- MB's Board meets 6 times a year which is below the average of 8.2 meetings a year for FTSE 350 companies.
- The Audit Committee - Audit committee size aligns to 28% of FTSE 350 companies – the most commonly occurring size of Audit Committee in the corporate sector. The Audit Committee Terms of Reference are sufficiently thorough and reflect the key themes contained in the roles and responsibilities for an Audit Committee in the UK Code.
- The Audit Committee - consists of 3 Non-Executive Directors and meets 3 times per year (one more than the 2 mandated in the Articles of Association). They meet to review the audit plan early in the calendar year; in July to review on the annual financial statements and recommend them to the Board; and in October primarily to review the risk register. Detailed terms of reference have been drawn up by MB. These clearly summarise the Audit Committee's constitutional basis, attendance requirements, frequency of meetings, its authority and its responsibilities.
- Additional Committees – MB also has a Remuneration and a Nominations Committee. Both meet twice a year to review proposals for pay increases and profit related pay and to consider nominations for non executive directors for the Board.

Appendix 4

Marketing Birmingham benchmarking

Performance monitoring

Management Information

- **Financial Reporting** – this provides detail of actuals against budget across MB's service lines and projects and sources of funding. The financial data contained in the Management Accounts is also supported by narrative contained in a separate report which summarises the key information for the Board.
- Performance Reporting & use of Key Performance Indicators (KPIs) – Performance is monitored on a monthly basis at the Senior Management Team meetings. These meetings then ensure that relevant performance reports are presented at the bi-monthly Board Meetings.
- Performance is reported to the board in line with the strategic priorities that are contained in MB's Business Plan and each strategic priority does have indictors by which it measures performance. Our review has not seen any evidence of how KPIs are systematically used to track and monitor performance on a monthly or bi-monthly basis, however, qualitative reports are produced against performance measures that are articulated in the reports that are presented to the board as part of the standing agenda.
- There are a number of KPIs contained within the Strategic Report that monitor performance across a range of activities as required by the Service Level Agreement with the Council but standard performance reporting does not track performance against these KPIs.
- KPIs have been included in the Performance Report for the ERDF in November 2014 but it is unclear how this report feeds into the structured performance management framework within MB and the Council. The KPIs presented in this report are also different to those provided in the strategic report.

Appendix 4
Marketing Birmingham benchmarking

Risk Management and Assurance

- **The Risk Register** – MB's Risk Register is bespoke to the organisation and provides a high level of detail. The register is refreshed on an annual basis, though may be updated with more regularity. MB's Risk Management Strategy stipulates that the Corporate Risk Register is discussed and up-dated by the Executive Team and bi annually by the Board. It is supported by a Risk Assurance Map which allows MB to judge a risk's acceptability and therefore establish their appetite for risk. The risk register includes risks relating specifically to governance. It highlights the risks attached to the high levels of "change and productivity", which are placing greater demands on the board and leading to increased board turnover as well as the high productivity and wide range of partners with differing agendas, placing high demands on senior managers. It recognises that the speed of change poses a risk to good governance and it has implemented control and monitoring measures to mitigate them.
- The Risk Management Strategy – MB has developed its own Risk Management Strategy. The Finance Director is the appointed 'Company Risk Manager'. He leads the operational Senior Management Team who meet twice yearly to evaluate the risk status and possible improvements to the Risk Management System. In comparison with the Treasury Guide to Risk Management, corporate best practice and other Council entities, MB's Risk Management Strategy document does not provide the same level of detail on how the strategy is implemented within the business.
- The risk register is presented at each meeting of the Audit Committee, as well as to the Board bi-annually. Members of the Board have this opportunity to raise queries relating to individual or the collective risk. The Audit Committee also receives regular reports on the development of the Risk Management System.
- A Shared Approach to Risk Management – Many of the risks to which MB is exposed are linked to the Council. There does not appear to be a structured shared approach to risk management or evidence of joint risk management meetings to underpin the risk management strategy. Indeed there is little reference to the Council in MB's Risk Management Strategy.

Appendix 4
Marketing Birmingham benchmarking

Business Conduct

- **Alignment of strategy –** Marketing Birmingham's business plan is set in the strategic context of Birmingham City Council's 'Sustainable Community' and other key strategies.
- **Working alongside the Council –** Quarterly meetings by the Service Level Agreement/Contract Management Group to discuss Marketing Birmingham's contracted deliverables provide a structured conduit through which business is conducted between Marketing Birmingham and the Council. These meetings are attended by key officers of both entities and there is a standing agenda to ensure continuity of reporting and effective governance.

Appendix 4
Service Birmingham benchmarking

Findings

Roles and responsibilities – The Board, Audit Committee and Internal Audit

- **The Board** –Service Birmingham's Joint Venture Board consists of 5 members. 2 of these members, including the Chairman, are elected members the Council 2 members are Executive Directors within the Company, including the CEO, and the 5th is a representative from Capita. This is smaller than the average board of directors for a FTSE 350 company. The Joint Venture Board meet on average between every 4 to 6 weeks.
- Audit Committee – SB do not have an Audit Committee. This deliberate decision was taken in 2006 and was reviewed and upheld in 2011. It was felt that that the terms of reference for an audit committee are already being fulfilled by current arrangements across the Council, SB and Capita in the following way:
- SB are subject to the control arrangements of the Council and are audited by Birmingham Audit and subject to review by the Council's Audit Committee. SB are also subject to Capita Groups internal & external auditors
- SB link into the Council's risk management arrangements and report risks to the JV Board on a regular basis, SB also produce Annual Corporate Governance Assurance Statement to the Council which is subject to review by Birmingham Audit
- SB is audited by both the Council and Capita Group Auditors. Both sets of auditors are independently assessed for their competency by external bodies and reported to respective audit committees.
- Both Capita Group and the Council have a Whistle Blowing policy.

Appendix 4

Service Birmingham benchmarking

Performance monitoring

Management Information

- **Financial Reporting** – Monthly financial performance reports are produced and presented to the board of SB. These contain detailed financial performance figures across the organisation and align to corporate best practice.
- Performance Reporting & use of Key Performance Indicators (KPIs) – SB reports performance against the requirements of the Service Level Agreement on a monthly basis as part of Service Reporting. All Service KPIs are monitored on a monthly basis and reported to both the Joint Venture Board and the Council's Intelligent Client Function (ICF). Service Birmingham's monthly reports contain:
- Key Business Update
- Core Contract Performance
- Shows progress against KPIs and targets over the previous months.
- Main Business Risks – Monthly update
- HR Data
- Including total number of FTEs
- Sickness absence data
- Balanced Scorecard – A Balanced Scorecard is in place to monitor key business activities that support the annual business plan. This scorecard contained a number of SB's core activities (broken down by Financial, Process, Client and People, and RAG rated performance against the activity.
- Group Performance Reporting – Whilst the Joint Venture Board within SB receive performance reports on a monthly basis, there is no evidence that this reporting system forms part of the Council's wider performance management framework.

Appendix 4

Service Birmingham benchmarking

Risk Management and Assurance

- **The Risk Register** – SB's Risk Register is bespoke to the organisation and provides a high level of detail. It is a single, unified risk register from which risks will be fed by all SB Divisions and fed into the Council risk processes. The Service Birmingham Risk Register is reviewed by the Boardas a minimum on a monthly basis. All identified risks are classified, analysed and prioritised according to the agreed criteria and Risk assessments are completed on a regular basis. The detailed descriptions of the key risks, risk ownership, control and monitoring procedures in place and the 'risk rank' scoring mechanism of impact and probability are all in line with public sector risk management guidance. The inclusion of risk response information would strengthen the document.
- The risk register includes risks relating specifically to governance. It highlights the risks attached to the high levels of "change and productivity", which are placing greater demands on the board and leading to increased board turnover as well as the high productivity and wide range of partners with differing agendas, placing high demands on senior managers. It recognises that the speed of change poses a risk to good governance and it has implemented control and monitoring measures to mitigate these.
- The Risk Management Strategy – SB's annual Assurance Statement found that – "The use of risk management has been recognised as a key element in the management of SB. SB as adopted a consistent, comprehensive policy and set of processes for Risk Management that comply with the requirements of ISO/IEC 20000-1:2013. This is mandatory for maintaining certification and will be monitored across all services, projects and programmes. Service Birmingham Operating Board (SBOB) set the residual risk levels for the company and approve risks for communication to customers The SBOB hold a risk management forum on a monthly basis to review the risk register and the Senior Directors review it quarterly. The Divisional Risk Group then visit SB one week after the Senior Directors meeting to gain assurance on the Risk Management Strategy. The risk register is discussed with the ICF on a regular basis, and jointly risk ratings are agreed. Effective Risk management is a Service Birmingham Scorecard objective.
- A Shared Approach to Risk Management – Many of the risks to which SB are exposed are linked to the Council. SB has an established and open risk framework and culture in place and ensures that the Council are aware of the risks and are updated when important changes occur.
- The SBOB hold shared risk management meetings with both Birmingham Audit and the ICF every month. Additionally the top SB ICT risks are reported quarterly to Audit Committee as part of the Council's Risk Management process and SB attends Council Audit Committees for specific matters. SB last attended for the Council's audit annual report (which included matters relating to ICT).

Appendix 4
Service Birmingham benchmarking

Business Conduct

- **Alignment of strategy** – In evaluating the extent to which the Council and SB have aligned their strategies we have concentrated on the new BCC ICT Governance Model. This new governance model is in draft form at time of writing full details of the arrangements that will be implemented have not been provided.
- Service Birmingham's Business Transformation Strategic Partnership Board (BTSP) consists of 8 members including 4 elected members of the Council, 2 Council Officers and 2 members from Capita. They meet 6 times a year and monitor the business of and agree the strategic direction of Service Birmingham. They are also responsible for ensuring the shared aims, vision, purpose, strategy; values of the partnership are maintained.
- The Work Initiation Process (WIP) is the governance model to coordinate all work requests from Service Birmingham's clients.
- Service Birmingham's Service Management function and the Performance and Information (P&I) Division work collaboratively to continually review and improve service delivery performance. The P&I Division is responsible for best value and account management and jointly responsible for development of the Service Birmingham partnership on behalf of the council. Service Birmingham's business plan which includes a detailed action plan is agreed and monitored by the P&I Division. Review of the contract, provision and monitoring of performance data is undertaken by Service Birmingham and the P&I Division.
- **Working alongside the Council – Practice** –With the re-design of governance arrangements, both parties have the opportunity to resolve issues that have historically posed problems to the governance of SB.

Appendix 5

Summary of board benchmarking

	Corporate average	Acivico	Birmingham Museums Trust	Innovation Birmingham	Marketing Birmingham	Service Birmingham
Board Size	• **FTSE 350 – 9.5** • **FTSE 100 – 11.4**	• 7 members on the board	• 12 members of the board	• 9 members of the board • 3 members in the Audit Committee	• 14 members on the board • 3 members in the Audit Committee	• 5 members on JV Board • 8 members of BTSP
Board Composition	**9.5 members** • **Chairman** • **5.7 NEDs** • **2.8 Exec. Directors**	• 3 Elected Members • 1 Executive Director • 3 Further Non-Executive Directors	• 2 Elected Members • 10 further Non-Executive Directors	• 3 Elected Members • 1 Executive Director • 5 Further Non-Executive Directors	• 2 Elected Members • 3 Executive Director • 9 further Non Executive Directors,	• JV Board – 2 Elected Council Members • BTSP – 2 Elected Council Members,
Frequency of meetings	• **Board – 8.2 a year** • **Audit Committee – 5 times a year**	• Board – 12 times a year • Audit Committee - N/A	• Board – 6 times a year • Audit Committee – N/A	• Board – 4 times a year • Audit Committee - Minimum once a year	• Board - 6 times per year • Audit Committee – 3 times a year	• JV Board – c. 10 times per year • BTSP – 6 times per year
Board Attendance (if known)	• **Not Known**	• Not Known	• Not Known	• 83%	• 74%	• Not Known

Appendix 6
Good practice in large corporates

1. Board size, composition, meetings and terms of reference
2. Performance monitoring
3. Risk management and assurance
4. Conduct of the business

1. Board size, composition, meetings and terms of reference

Insights

Requirements of the UK Code	Good practice in large corporates
• **A.1.1:** A statement of how the board operates, including a high-level statement of which decisions are to be taken by the board and which are to be delegated to management • **A.1.2/DTR 7.1.5:** The names of the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director, and the chairmen and members of the board committees • **A.1.2:** The number of meetings of the board and those committees and individual attendance by directors • **B.1.1:** The names of non-executive directors the board considers to be independent, with reasons where necessary • **B.1.2:** Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors • **B.2.1/ C.3.3/ D.2.1:** The committees should make available its terms of reference, explaining its role and the authority delegated to it by the board	• The UK Code does not specify an optimal board structure in terms of number of members but does recognise the need for the board to be of sufficient size so that the requirements of the organisation can be met, changes to the board's composition can be managed and should not be so large as to be unwieldy • Clear insight into balance of director's skills / expertise relevant to the organisation's needs / areas of operation. The board should be sufficiently capable so as to challenge how management are running the organisation based on their knowledge and previous experience • The UK Code suggests that, as a minimum, board committees should include: - *Audit Committee* - *Remuneration Committee* - *Nomination Committee* • Our research found that on average FTSE 350 audit committees meet five times, remuneration committees meet five times and the nomination committees meet three times during the year. Committee duties suggest that: – Audit Committees must meet at a minimum twice a year to review and approve the interim and full year financial statements and to agree the external audit output and review and reappoint (or otherwise) the external auditor. This may increase in the event of a fraud for example – Remuneration Committees are required to review and agree the remuneration policy on an annual basis. They must also assess and align variable pay for executives to company strategy and circumstances – Nomination Committees must meet annually to cover board effectiveness and succession planning – All three committees must meet at least once to agree the content of the annual report disclosures and confirm the terms of reference remain appropriate

1. Board size, composition, meetings and terms of reference

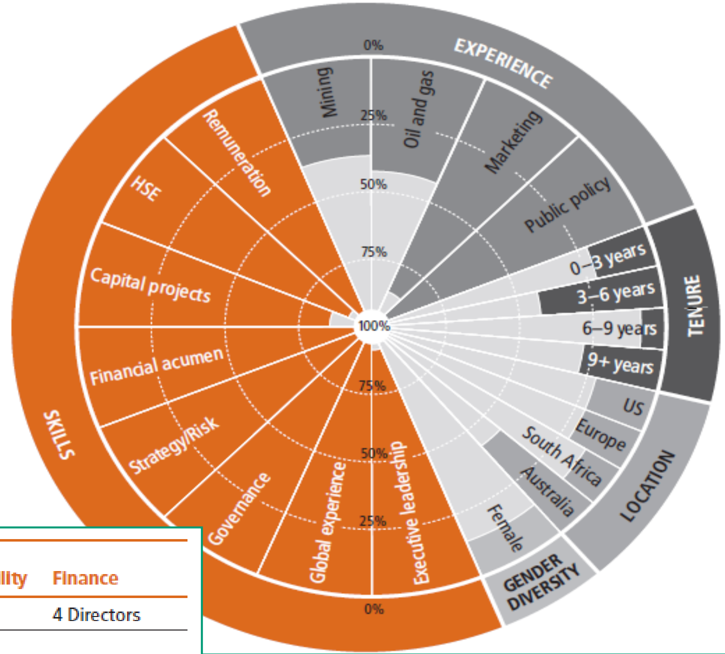
Case study – BHP Billiton

BHP Billiton gives a good practice disclosure of their board composition. It is transparent, aligned to the business structure and operational requirements and covers the key aspects a balanced board, aside from wider diversity, which is disclosed elsewhere.

The majority of FTSE 350 companies are working towards achieving the Davies target for 25% female board membership by 2015. BHP Billiton clearly express current gender diversity.

In addition, the company clearly displays the number of meetings of the board and that of its committees along with the name of the directors who have attended.

In order to be able to demonstrate the independence of a non-executive directors, boards are required to set out the tenure of each director, the UK Code perceives independence to compromised when tenure exceeds nine years.



Skills and experience	Board	Risk and Audit	Nomination and Governance	Remuneration	Sustainability	Finance
Total Directors	14 Directors	4 Directors	3 Directors	5 Directors	4 Directors	4 Directors
Executive leadership Sustainable success in business at a very senior executive level in a successful career.	13 Directors	3 Directors	3 Directors	4 Directors	4 Directors	4 Directors
Global experience Senior management or equivalent experience in multiple global locations, exposed to a range of political, cultural, regulatory and business environments.	14 Directors	4 Directors	3 Directors	5 Directors	4 Directors	4 Directors
Governance Commitment to the highest standards of governance, including experience with a major organisation that is subject to rigorous governance standards, and an ability to assess the effectiveness of senior management.	14 Directors	4 Directors	3 Directors	5 Directors	4 Directors	4 Directors
Strategy/Risk Track record of developing and implementing a successful	14 Directors	4 Directors	3 Directors	5 Directors	4 Directors	4 Directors

2. Performance monitoring

Insights

Requirements of the UK Code

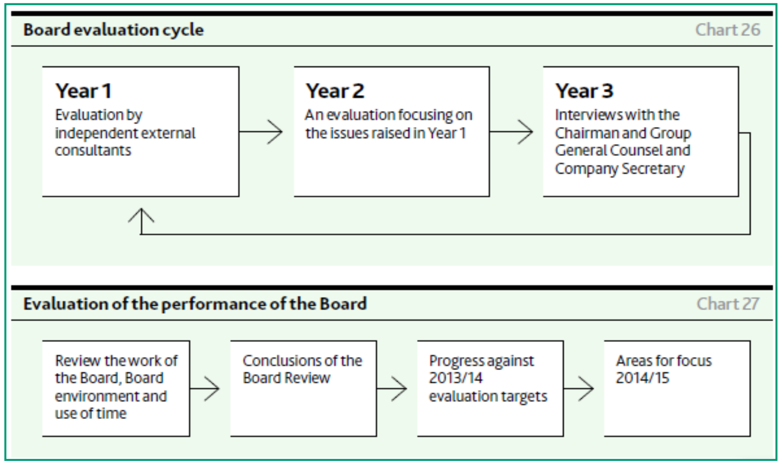
- **B.6.1:** a statement of how performance evaluation of the board, its committees and its directors has been conducted
- **B.6.2:** Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.
- **B.6.3.** The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

Good practice in large corporates

- Disclose a breakdown of evaluation criteria, good practice alignment to FRC Board effectiveness guidelines
- Provide additional insight into key outcomes of the board evaluation process as they align to board objectives/responsibilities, and any subsequent actions
- Good practice assessment criteria includes:
  - Succession and development plans
  - Effectiveness of board committees, and how they are connected with the main board
  - Quality of the general information provided on the company and its performance
  - Clarity of the decision processes and authorities
  - Processes for identifying and reviewing risks
- Commitment to undertake an externally facilitated board evaluation every three years

Extract: Land Securities plc annual report 2014

As mentioned above, good practice board effectiveness disclosures include key criteria assessed, outcomes of the evaluation, any progress this shows against the previous years evaluation and any actions arising for the year ahead. In this regard, Land Securities plc has illustrated this process in full as demonstrated in the extract to the right. In the annual report further detail is given below each of these headlines.



2. Performance monitoring

Insights

The Companies Act 2006 414C "Contents of strategic report" states:

"4. The review must to the extent necessary for an understanding of the development, performance or position of the company's business, include:

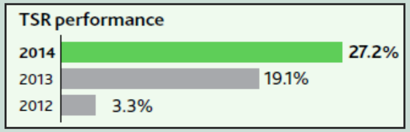
a) Analysis using financial key performance indicators

b) Where appropriate , analysis using other key performance indicators, including information relating to environmental matters and employee matters."

The best companies will ensure the KPIs cover the core aspects of the business, including non-financial measures for example around sustainability and employees. These KPIs should be assessing the business outputs that need to be monitored and measured so as the board may constructively challenge management and hold them to account over the achievement of the strategic objectives.

The table below shows a good practice example of a key performance indicator (KPI) disclosure. This diagram explains the relevance of the measure used, what it means to the company, links transparently to strategy and gives accompanying performance evaluation discussion. This disclosure is better than many other FTSE companies good because it gives a clear performance target to allow stakeholders to understand at a glance the company's actual performance against that which was forecasted.

Reproduced structure of KPI disclosure: Land Securities annual report 2014

Strategic objective	KPI for the year	Performance	Data	Remuneration	KPI for year ahead	Linked to remuneration
Deliver sustainable long-term shareholder returns	Three year Total Shareholder Return (TSR) performance compared to the TSR performance (weighted) of a comparator group of property companies within FTSE 350 real estate index	TSR out performance of 4.1% per annum for the three year period from April 2011		50% of the award of long-term share investment plans is determined by the three year TSR performance compared to the comparator group	Three year TSR performance compared to the TSR performance (weighted) of a comparator group of property companies within the FTSE 350 real estate index	1

3. Risk management and assurance

Insights

Requirements of the UK Code	Good practice in large corporates
• C.2.1: The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated. • C.2.3: The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls. • DTR 7.2.5: A description of the main features of the internal control and risk management systems in relation to the financial reporting process • DTR 7.2.10: A description of the main features of the group's internal control and risk management systems in relation to the process for preparing consolidated accounts	Both the UK Code and the Strategic Report requirements encourage companies to disclose details of their risk management and internal control systems and processes, and how they have gone about assessing the effectiveness of these systems. The best FTSE 350 companies give detail into how the board: • recognise and prioritise the principal risks • assess the effectiveness of the risk management system • assess the effectiveness of the internal controls system We would expect risk management disclosures to include: • Assessment and challenge of corporate risks during the year • Risks that are clearly aligned to the corporate strategy • Regularly assess the exposure to risk, including measuring key risk indicators • Consideration of risks appetite • Clear risk management structure and reporting lines We would expect internal control disclosures to include reference to: • Procedures to ensure compliance with external regulators • Corporate policies, procedures and training • Financial controls • Safeguarding assets • Fraud detection and prevention

3. Risk management and assurance

Case study – Cairn Energy

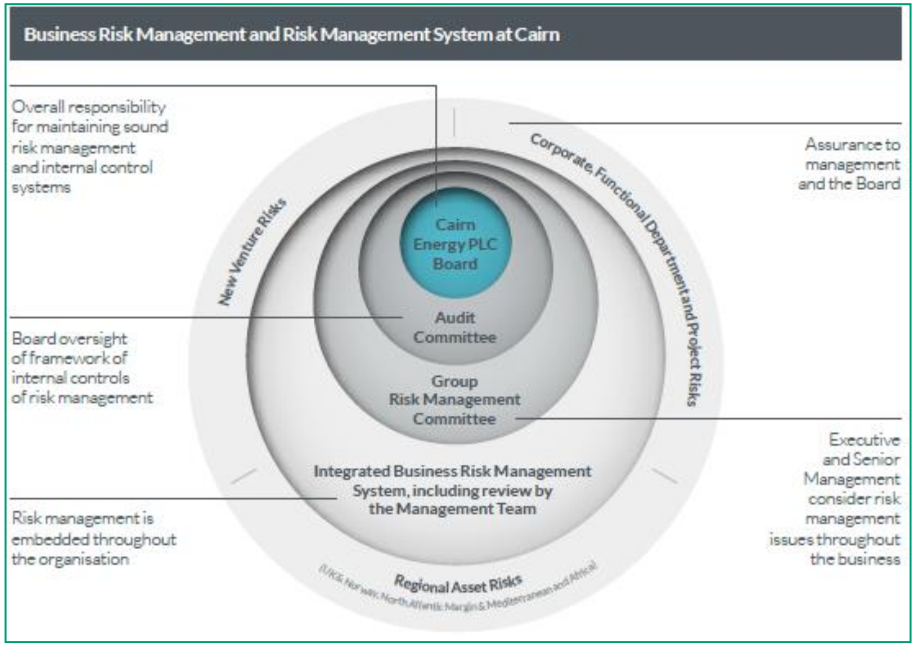
Good practice in large corporates

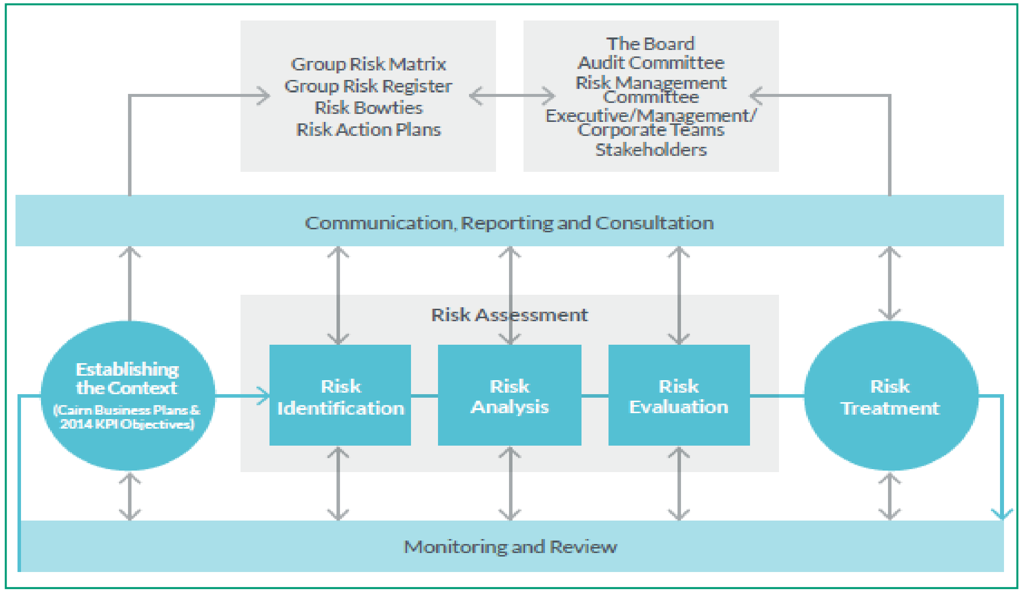
A strong risk management lifecycle could include six processes that could be of help to manage risk effectively and consistently, the six processes are:

1. Risk Planning
2. Risk Identification
3. Risk Analysis
4. Risk Mitigation
5. Risk Monitoring
6. Risk Reporting

Cairn Energy give good practice insight into their approach to risk management. While giving clear insight into the system in place there is also details of improvement work being undertaken which include workshops and control mapping exercises.

Extract: Cairn annual report 2013





4. Conduct of the business

Insights

Requirements of the UK Code	Good practice in large corporates
• The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. • C.1.2: The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company • 414C (2)(a): A fair review of the company's business • 414C (7)(a): In the case of the quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include the main trends and factors likely to affect the future development, performance and position of the company's business • 414C (8)(a): In the case of quoted companies the report must include a description of the company's strategy • 414C (8)(b): In the case of quoted companies the report must include a description of the company's business model • 414C (12): The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts	• One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the correct 'tone from the top'. The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success • These values should influence every decision made in the business, they should link to the business plan and should be embedded within the employee performance evaluation and reward structures. • Transparent leadership disclosures are key to providing stakeholders with assurance that the organisation has a clear strategic direction, driven by good governance, embedded values and a robust leadership team Good practice governance disclosures, that align to both the requirements of the UK Code and also the Strategic Report Regulations, have the following features: • Clear connection between the strategy and the business plan. The business plan should drive the achievement of the strategic objectives. Risks and KPIs should also link to the Strategy • Alignment of company and board structure and how this supports achievement of the strategy • Ensuring reporting gives an overarching view of the business and offers insight into what is monitored at board level in terms of performance and risk

4. Conduct of the business

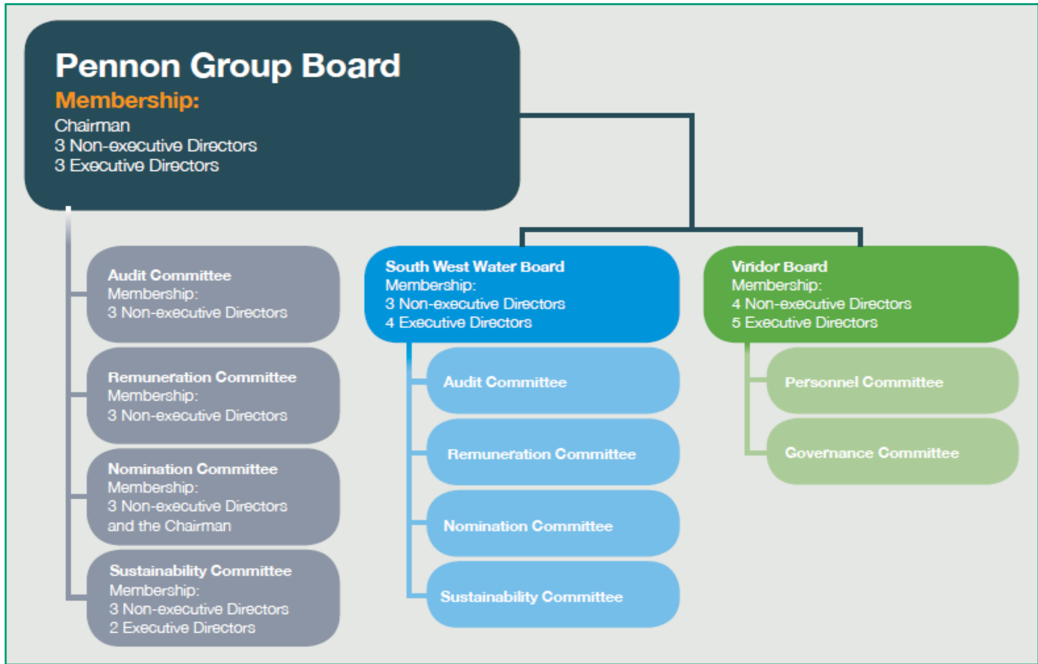
Case study – Cairn Energy

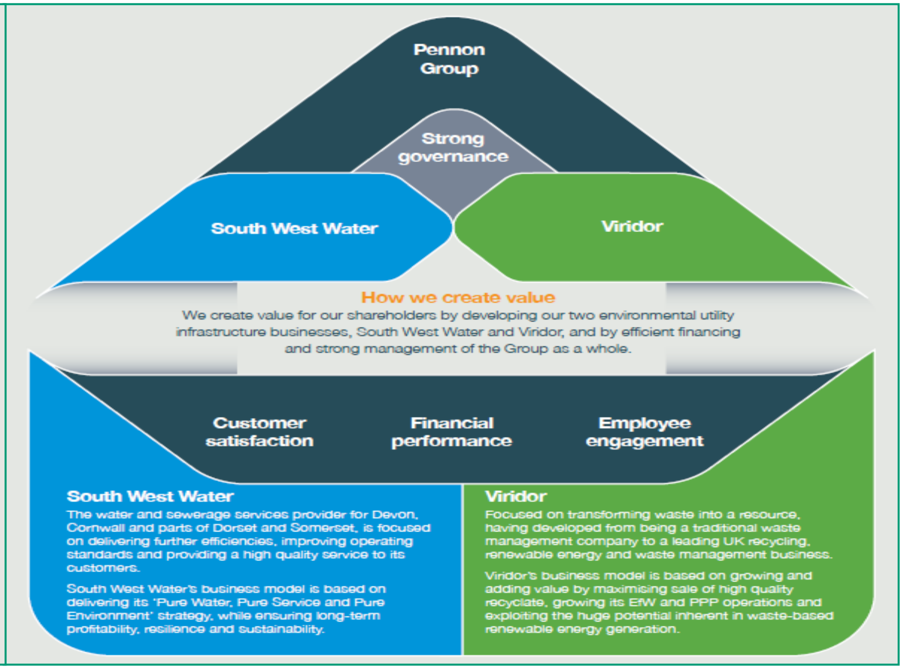
Good practice in large corporates

The following shows a good practice disclosure around board structure and represents how Pennon Group build a base for consistency and challenge across their business.

Extract: Pennon Group annual report 2014

"The Board and its governance framework, and that of its subsidiary boards, is set out below. Each board has a 'matters reserved' setting out its responsibilities and each committee has a detailed terms of reference setting out its responsibilities, accountabilities and reporting obligations to each board. Together with the risk management and internal control frameworks they form an effective and robust governance structure designed to manage and develop the Group in accordance with the Group's strategy to maintain and grow shareholder value."





Appendix 7
Good practice in the local government sector

Key factors for success in governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements

Good risk leadership entails delivering assurance on the areas where local authorities face the greatest risk. Would governance arrangements:

- highlight a potential service failure before it happened
- identify a significant safeguarding compliance weakness
- ensure that regulators would not identify anything of substance that they did not already know?

Five questions for members to ask about risk management:

1. Does the risk register cover all our key opportunities as well as threats?
2. Would frontline staff agree with the corporate risk register?
3. How confident are managers about managing the risk of service failures?
4. How are we managing safeguarding compliance risks?
5. Did our last report from a regulator include any surprises, and if so, what action has been taken?

Results of Grant Thornton's Governance Survey:

Inevitably, entering into ADMs involves sharing risks. Our survey revealed a significant degree of hesitancy about whether all parties understood the risks involved with ADMs and how they should be managed. Almost one third felt there was no common understanding between all parties, while an additional 56% only partially agreed.

We also asked if leaders felt members and officers were clear about their roles and responsibilities, both individually and collectively, regarding ADMs. Here there appeared more uncertainty with just over a quarter disagreeing and only 12% agreeing strongly.

HM Treasury – 'Managing risks with delivery partners' (2004).
The Treasury's guide to risk management for partnerships remains relevant today.

Key points:

- Good risk management is integral to a successful partnership
- Delivering services through partners can produce significant benefits and help bring about successful innovation
- This inevitably offers less direct control
- Risks can arise from failing to align agendas and from ineffective communication

Appendix 8
BS11000: Collaborative working relationships

BS11000 is the British Standard for Collaborative Working Partnerships.

It provides a structure and discipline that is respected by others and sets the tone that an organisation has considered the project carefully and put effort and resource into it. It affords more transparency with speedier identification and resolution of issues. Public sector bodies that have followed this approach have found that this is helpful in setting its expectations with contractors and partners to ensure that all parties achieve their respective goals from the arrangement.

There is a formal accreditation process for which some organisations apply, but many others rely on observing the principles through the eight step approach which we outline below:

Eight Step Approach

1. Awareness

How does relationship management fit in with your organisation's expectations? For example, consider the following:

- are they able to fulfil the communications you require?
- do they demonstrate an understanding of working with the public sector eg the profile of such projects, the capacity constraints of smaller authorities, the political aspects of local government?
- do they share the interest in the public sector?
- how important will this partnership be to them?
- what other contracts will they be working on at the same time?

.

Objectives need to be clearly defined so that others know your expectations. This can be ascertained by due diligence, for example finding out if other local authorities say they understood them sufficiently well and asking these questions at pitch presentations

2. Knowledge

It is important to understand the scale of the undertaking, for example:

- how significant is it in terms of size and cost compared to other activities within the organisation?
- how important is it for the profile of the organisation and what will the degree of scrutiny be?

3. Internal assessment

Identify what your own capabilities are, recognise the strengths and weaknesses and put in place measures to mitigate the weaknesses from the outset.

Outsourcing work to a third party when internal expertise is limited represents a greater risk as it represents a loss of direct control but ultimately the responsibility remains with the Council.

Appendix 8 (continued)

BS11000: Collaborative working relationships

4. Partner selection

Assess the suitability of partners to work with you in terms of their working style as well as their technical competence. This is ascertained during the due diligence process. Questions may include:

- what type of methodologies and management approach will they employ?
- how focused will they be on you as a partner?

5. Working together

Establish the mode of working together for mutual benefit. For example the project management approach expected, reporting and communications to meet your expectations. How regularly will they communicate, by what method and at what level of seniority?

Ensure that accountabilities are clearly articulated, agreed and communicated so that there is no ambiguity of duties.

The governance arrangements should include senior level accountability for contractor performance with enforceable sanctions.

6. Value creation

Stating that this partnership will add value to all parties if successfully completed and that as much can be gained by each party as possible but not to the detriment of others. To be effective, this should be clearly articulated and communicated to all. A benefits realisation plan (a document that lists all the expected benefits for all parties at the outset and the measures of success) is often used to monitor progress against this objective.

7. Staying together

It is important to try to resolve disputes without recourse to termination of contracts. This step encourages the building of rapport through regular communication, even if the project is running smoothly. It means that if problems do arise at a later stage, the goodwill has been established and will help to keep the relationship as positive as possible.

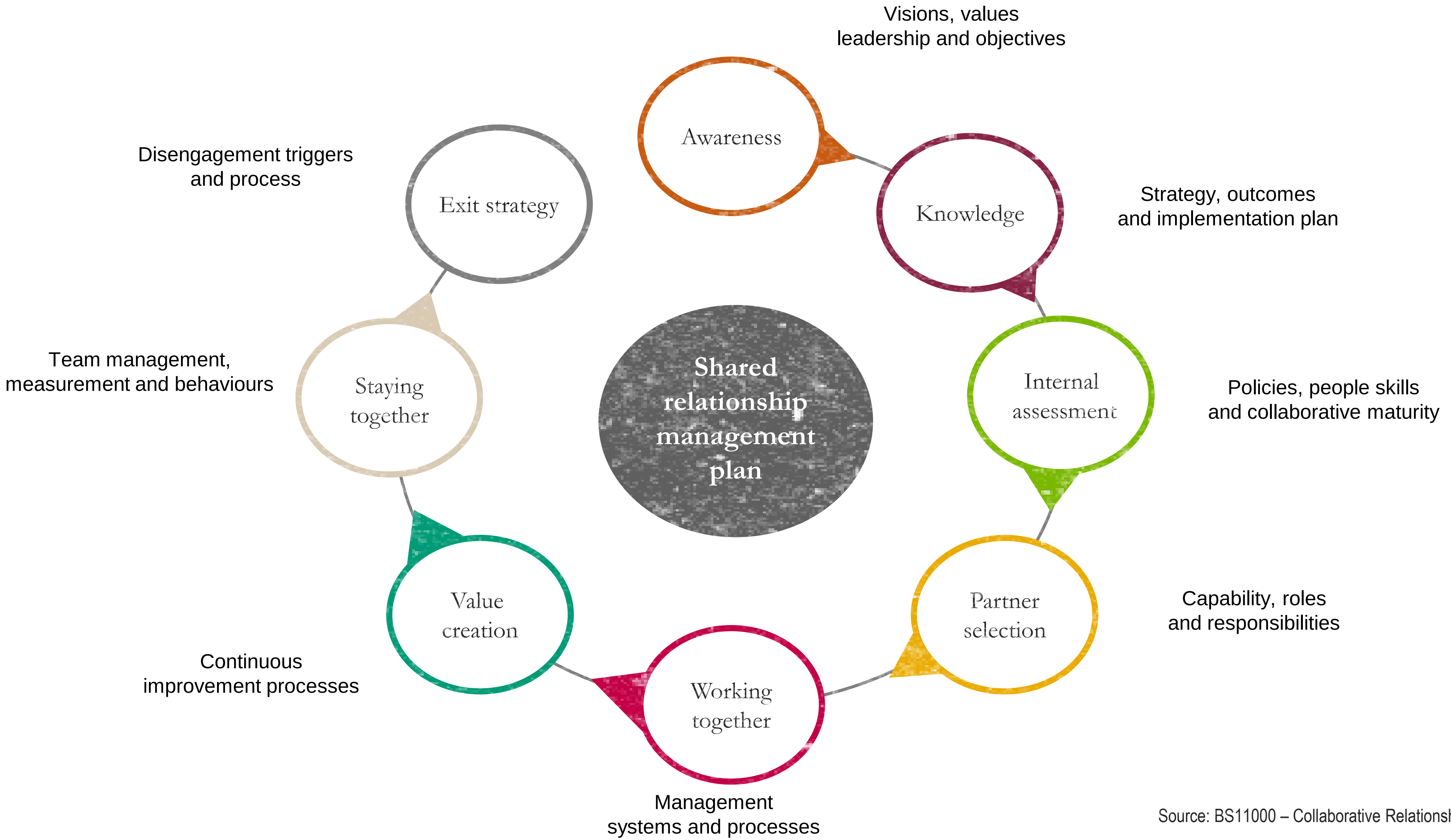
Consider key staff retention as a performance measure for contractors in order to help continuity and increase the opportunity for developing good working relationships.

8. Exit strategy

Clarity from the outset regarding how the project/partnership will end is important., whether it ends happily or not and if the partnership ended before the contract end date. Understanding in what circumstances this is possible is required so that action may be taken swiftly if needed.

Appendix 8 (continued)

BS11000 – Collaboration spectrum



Source: BS11000 – Collaborative Relationships

Appendix 9
Example Executive Committee Terms of Reference

Role

A general statement of the committee's purpose or role should be set out, for example 'to ensure that the Council's strategic objectives are met across the group' or 'to support the development of the group in line with the Council's regulations and ambitions.

Responsibilities

A specific list of activities the committee is to undertake. Committee responsibilities might include:

- Receiving and reviewing entity performance reports
- Holding entity boards to account for their performance
- Supporting the development of entities
- Identification of entities' business support requirements
- Evaluation of effectiveness of entity board governance structure, processes and recommend changes as required
- Reviewing business plans and strategies of the entities to ensure compliance with the Council's strategic direction
- Ensuring compliance of the entities with the Council's interests including the Business Charter
- Oversight of compliance to ensure that taxation, legal and financial interests of the Council are consideration and protected
- Ensuring that risk relating to the entities is at a suitable level for the Council to bear
- Advising Cabinet of issues

Membership and Voting

Set out the number of appointed committee members and whether they are voting or non-voting and whether votes are equal or weighted in favour of members. State how many are elected members of the Council and how many are NEDs.

Frequency of Meetings

Specify if a minimum number of meetings must be held, for example 'at least quarterly at the call of the committee chair'. Typical frequency of meetings is four times annually.

Quorum

If there are NEDs on the committee, the quorum should reference them, for example 51% of the committee members.

Resources

Specify if a Council Officer is to be assigned to the committee as a resource and committee support.

Reporting

Specify how the committee reports. It will usually be to the Cabinet.