

## Report of the Deputy Chief Executive

### Report to Corporate Governance and Audit Committee

**Date: 18<sup>th</sup> March 2016**

### **Subject: Review of Financial Governance and Control Arrangements for Partnerships and Other Joint Arrangements**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

### Summary of main issues

1. The purpose of this report is to provide assurance that appropriate financial governance and control arrangements are in place for partnerships and other joint arrangements where Leeds City Council has a financial governance role and that these meet expected standards.
2. Partnerships and other joint working arrangements with external bodies form an increasing element of the Council's activities, providing challenges in terms of transparency, demonstrating accountability and managing risk.
3. This review updates the existing register of financial governance arrangements to ensure complete coverage and consistency. The exercise provides assurance that all of the identified partnerships have appropriate arrangements in place with due regard to expected standards.
4. Work will continue to further develop Financial Regulation toolkits to support work in this area and to re-inforce the necessary maintenance and review processes.

### Recommendations

5. Corporate Governance and Audit Committee are asked to note the assurances provided that the appropriate financial governance and control arrangements are in place and meet expected standards.

## **1 Purpose of this report**

- 1.1 This report aims to update the Committee on work undertaken to identify and review joint-working arrangements with other organisations and to ensure that appropriate financial governance and control arrangements are in place.
- 1.2 In his September 2015 report to Corporate Governance and Audit Committee<sup>1</sup>, the Deputy Chief Executive discussed financial governance arrangements for partnerships and other such arrangements, acknowledging that the development of new collaborative structures and service delivery models provide challenges in terms of transparency, demonstrating accountability and managing risk.
- 1.3 In addressing these challenges Financial Management is working closely with colleagues to ensure proper financial governance arrangements are in place and the 2015/16 Financial Management Service Plan includes an objective to identify and review such arrangements.
- 1.4 The information collected will be used to further develop financial governance toolkits, and will support Internal Audit to ensure such arrangements are reviewed as part of the annual audit plan.

## **2 Background information**

- 2.1 Partnerships and other joint working arrangements with external bodies form an increasing element of the Council's activities and Leeds City Council's governance framework already addresses such arrangements in the Constitution and delegation schemes, in the Code of Corporate Governance and in the Financial Regulations and their associated Toolkits.
- 2.2 The Council has also issued guidance concerning wider partnership governance issues<sup>2 3</sup>. Based on the Code of Corporate Governance, these documents provide a framework for partnership working including minimum governance requirements and review processes.
- 2.3 CIPFA/SOLACE consulted on a revised 'Framework for Delivering Good Governance in Local Government' in 2015. We will further assess our arrangements against this guidance once published.
- 2.4 In 2007 Financial Management established a register of non-LCC financial activities to review accounting treatment and identify potential exposure to financial liabilities. Stemming from this, all 'significant' arrangements are reported to Corporate Financial Integrity Forum and are subject to quarterly financial monitoring as a minimum.
- 2.5 This register has been maintained in the intervening period and the current review has ensured complete coverage and consistency.

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<sup>1</sup> 18 September 2015: Corporate Governance and Audit Committee, Financial Management and Control Arrangements

<sup>2</sup> 26 January 2010: Governance Framework for Significant Partnerships Version 3.0

<sup>3</sup> January 2013: Advisory Note for Directors: Partnership Governance

### **3 Main issues**

#### **3.1 Scope**

3.1.1 For this exercise the definition of a 'partnership' used was 'an agreement between two or more independent bodies to work collectively to achieve an objective'<sup>4</sup>. This definition encompasses a wide range of financial partnership arrangements:

- Separate legal entities;
- Joint Committees;
- Pooled budgets;
- Statutory partnerships; and
- Informal partnerships where the Council has a financial governance role.

3.1.2 This review is not intended to encompass all arrangements between Leeds City Council and external bodies. Arrangements where there is no financial governance role for Leeds City Council are excluded. Financial relationships not meeting the 'partnership' definition above, such as grant arrangements, investments and procurements have also been excluded from this exercise.

#### **3.2 Methodology**

3.2.1 Potential arrangements were identified from a range of sources and reviewed by Financial Management and service colleagues to determine whether they were within scope of the review. Many of the arrangements were excluded at this stage for a variety of reasons, such as the organisation no longer existing, the partnership relationship having ended or the partnership arrangement having no financial aspect.

3.2.2 Detailed questionnaires were completed for the arrangements identified as meeting the definition above and falling within the scope of the review.

3.2.3 The questionnaire addressed the expected standards in the existing guidance, and required a range of information concerning accountability, legal status, financial recording and reporting, the ownership of assets and liabilities and the identification and evaluation of financial risk.

#### **3.3 Findings**

3.3.1 A number of the identified arrangements were bequests or trusts managed by Corporate Financial Management. These are actively managed in accordance with Financial Regulations and an existing Bequests and Trusts Toolkit. Corporate Financial Management maintains a register and the arrangements are regularly reviewed by the Corporate Financial Integrity Forum, chaired by the Chief Officer (Financial Services). Given the established arrangements, these are not considered further in this report.

3.3.2 Twenty four partnerships were identified as meeting the definition of 'partnership' above and falling within the scope of the review. These are shown at **Appendix 1**

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<sup>4</sup> Audit Commission 2005: Governing Partnerships; Bridging the Accountability Gap

and have been categorised, distinguishing those which are separate legal entities from those which are not.

- 3.3.3 Returned questionnaires were reviewed with reference to the expected standards summarised in paragraph 3.2.3. above and a summary is provided at **Appendix 2**. This summary illustrates how responses to some of the key questions offer assurance that all of the identified partnerships have appropriate arrangements in place with regard to expected standards. No issues were identified by the review. For your reference, a blank questionnaire is provided at **Appendix 3**.

### **3.4 Next Steps**

- 3.4.1 Two new Financial Regulations toolkits have been developed and will be available on Insite from April 2016. These cover all of the Council's financial stewardship relationships. The first <sup>5</sup> requires officers to notify Corporate Financial Management of new partnership arrangements, supporting the ongoing maintenance of the central register. The second toolkit<sup>6</sup> details six 'Key Rules' to be applied to the financial management of these arrangements based on the existing expected standards.
- 3.4.2 These toolkits will continue to be developed to provide more detailed guidance to staff involved in the management of partnerships.
- 3.4.3 An annual review process will be established through the existing functionality of the Corporate Financial Integrity Forum. Heads of Finance will report to this group to confirm that appropriate governance is in place for identified arrangements within their directorate and to discuss any potential new arrangements.
- 3.4.4 Accounts or year-end financial statements will be reviewed by Financial Performance Group for all identified arrangements. Arrangements with a higher level of financial or non-financial risk will be reported more regularly.
- 3.4.5 The Deputy Chief Executive holds the responsibility, delegated to the Chief Officer (Financial Services), to agree to undertake the financial responsibilities for partnership arrangements, except where the Council has a legal obligation to do so. The toolkits therefore require that before entering any new partnership officers should notify Corporate Financial Management, providing a clear case as to the benefits of the arrangement. They also require completion of a Financial Governance questionnaire, which will be reviewed by Corporate Financial Management and, where applicable, incorporated into the annual review process.
- 3.4.6 Internal Audit will review the register to help determine whether specific partnerships should be included for review in the Annual Internal Audit Plan.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 This report has no direct issues requiring consultation or engagement.

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<sup>5</sup> Treasurer, Accountable Body and Other Similar Financial Arrangements – Scope of the Regulation

<sup>6</sup> Treasurer, Accountable Body and Other Similar Financial Arrangements – Key Rules

## **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 This report has no direct equality and diversity / cohesion issues.

## **4.3 Council policies and Best Council Plan**

4.3.1 As expressed within the Best Council Plan 2016/17, spending money wisely is one of the Council's values. Ensuring that the Council has appropriate financial governance arrangements in place is a key element of this.

## **4.4 Resources and value for money**

4.4.1 This report deals with arrangements for ensuring effective financial governance and control and is aimed at providing assurance to members that appropriate arrangements are in place.

## **4.5 Legal Implications, Access to Information and Call In**

4.5.1 The report does not require a key or major decision and is therefore not subject to call-in.

## **4.6 Risk Management**

4.6.1 The central register of financial governance arrangements will be maintained and will be subject to annual review.

## **5 Conclusions**

5.1 The review provides assurance that the fundamental building blocks for the financial governance of partnerships are already in place, and that expected standards are being met.

5.2 Processes to ensure the maintenance and annual review of the arrangements, as discussed above, will be established.

5.3 Work will continue to further develop Financial Regulations toolkits to provide a coherent framework for the financial governance of the identified arrangements.

## **6 Recommendations**

6.1 Corporate Governance and Audit Committee are asked to note the assurances provided that the appropriate financial governance and control arrangements are in place and meet expected standards.

## **7 Background documents<sup>7</sup>**

7.1 None.

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<sup>7</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

## Identified Financial Governance Arrangements By Category

Category	Definition and additional notes	Name
<b>Separate Legal Entities</b>	<i>The entity has its own legal personality, which is separate to the individuals who participate in it. All are regulated by company law.</i> <b>Despite being separate legal entities, the arrangements below are included in this review because of the extent of Leeds City Council's control or influence.</b>	
<b>1. Private limited company</b>	A limited company is responsible in its own right for everything it does and its finances are separate to the personal finances of the directors. Most limited companies are 'limited by shares', so that the shareholders' responsibilities for financial liabilities are limited to the value of shares they own.	Leeds City Region RIF (GP) Limited NPS Leeds Ltd
<b>2. Private company limited by guarantee without share capital</b>	Such companies are often charities, community projects, clubs, societies and other similar bodies. They do not distribute their profits to their members but either retain them within the company or use them for some other purpose. The main reason to be a company limited by guarantee is to protect the people running the company from personal liability for the company's debts, just as in a company limited by shares.	Leeds Apprenticeship Training Agency (ATA) Limited
<b>3. Limited partnership</b>	Any liability for debts that can't be paid by the company is split among partners, and as 'limited' partners they are only liable up to the amount they initially invest in the business.	Leeds City Region Revolving Investment Fund (RIF) LP
<b>4. Charitable company</b>	In the same way as the companies described above, charitable companies are corporate bodies which the law considers to be a person in the same way as an individual. Thus generally trustees aren't personally liable for what a charitable company does. Charitable companies are regulated by both company and charity law and the trustees have responsibilities as directors.	The Craft Centre and Design Gallery Leeds Grand Theatre & Opera House Ltd Green Leeds Ltd
<b>Not Separate Legal Entities</b>		
<b>5. Unincorporated charity</b>	Without a separate legal personality these organisations are unable to enter into contracts or control some investments in their own name. The trustees are personally liable for what an unincorporated charity does, can be individually or jointly sued for breach of contract and may incur unlimited personal liability. <b>Although Leeds City Council is not 'in partnership' with these arrangements, they are included because Leeds City Council is acting as the Honorary Treasurer and the Council supports their financial management.</b>	Lineham Farm Childrens Centre Middleton Park Equestrian Centre
<b>6. Joint Committee</b>	Joint committees are established to jointly discharge local authority functions, in accordance with Section 101(5) of the Local Government Act 1972 and Section 9EB of the Local Government Act 2000.	West Yorkshire Joint Services Committee Leeds City Region Business Rates Joint Committee
<b>7. Statutory partnership</b>	<b>a. Section 75 of the NHS Act 2006:</b> whereby the Secretary of State can make provision for local authorities and National Health Service (NHS) bodies to enter into partnership arrangements in relation to certain functions, where these arrangements are likely to lead to an improvement in the way in which those functions are exercised.  <b>b. Care Act 2014</b> <b>c. Children Act 2004</b>	Better Care Fund Leeds Community Equipment Service & Telecare Pooled Budget Learning Disability Pooled Budget South Leeds Independence Centre (SLIC) (s75 with CCGs) South Leeds Independence Centre (SLIC) (partnership with LCHT) Safeguarding Adults Board Leeds Safeguarding Children Board
<b>8. Informal partnership</b>		Aire Action Leeds Competition Damages Unit Super Connected Cities LCR WY Local Broadband Plan (Superfast West Yorkshire) PSN Regional Transition team West Yorkshire Casualty Reduction Partnership

## Summary of Responses to Financial Governance Questionnaire by Category<sup>1</sup>

## Appendix 2

Best Practice Recommendation	1. Private limited company	2. Private company limited by guarantee without share capital	3. Limited Partnership	4. Charitable company	5. Unincorporated charity	6. Joint Committee	7. Statutory partnership	8. Informal partnership	Assurance
No. of arrangements	2	1	1	3	2	2	7	6	
	Separate Legal Entity				Not Separate Legal Entity				
Accountability									
Q1d. Identified LCC Accountable Officer	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	2 of 2	7 of 7	6 of 6	There is an identified senior accountable officer.
Legal Status and Decision-Making									
Q2b. What partnership documents are there?	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	2 of 2	7 of 7	6 of 6	Relevant documentation is held to enable understanding of legal status.
Q2d. How are decisions taken?	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	2 of 2	7 of 7	6 of 6	Decision-making processes are understood.
Financial Recording and Reporting									
Q3b. Is LCC the accountable body? <sup>2</sup>	N/A	N/A	1 of 1	N/A	N/A	1 of 1	5 of 5	4 of 4	Accountable body role is recognised and understood.
Q3e. To what extent is FMS used? <sup>3</sup>	1 of 1	1 of 1	1 of 1	3 of 3	2 of 2	1 of 1	6 of 6	5 of 5	Arrangement is being correctly accounted for and reviewed.
Q4c. Where is performance reported to?	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	2 of 2	7 of 7	6 of 6	Arrangement is being reported to the appropriate forum.
Q4d. Are statutory final accounts produced and audited where required? <sup>4</sup>	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	1 of 1	N/A	N/A	Arrangement is being correctly accounted for and reviewed.
Ownership of Assets and Liabilities									
Q5a. Who owns the assets and liabilities?	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	2 of 2	7 of 7	6 of 6	Ownership of assets and liabilities is understood.
Identification and evaluation of financial risk									
Q5d. What is the nature of any financial risk to LCC?	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	2 of 2	7 of 7	6 of 6	Nature of financial risk is understood.
Q5e. What is the potential value of financial risk to LCC?	2 of 2	1 of 1	1 of 1	3 of 3	2 of 2	2 of 2	7 of 7	6 of 6	Potential value of financial risk and mitigations are understood.

### Notes:

1. This appendix summarises responses to specific questions on the Financial Governance questionnaire to demonstrate how the information provided gives assurance that best practice is being applied. It is not a summary of all responses to the questionnaire.

2. Accountable bodies have financial responsibility for funding received and proper expenditure on behalf of a joint arrangement with other partners. Leeds is not the accountable body in all of the arrangements reviewed, but this is not a specific concern as it reflects the differences in arrangements.

3. The Council's Financial Management System is being used in all cases where LCC is the accountable body. It is also utilised to record the financial transactions of a number of other arrangements.

4. Final Accounts are not required for all of the arrangements reviewed. Where required the review confirms that final accounts are produced, audited and filed appropriately.

## FINANCIAL GOVERNANCE QUESTIONNAIRE

For the purposes of the completion of this questionnaire, the definition of a financial partnership arrangement would include, but not be limited to:

- Separate legal entities
- Joint Committees
- Pooled budgets
- Statutory partnerships
- Informal partnerships where LCC has a financial governance role.

<b>1. ORGANISATION AND CONTACT DETAILS</b>	
1a. Organisation Name	1d. Chief Officer Name & Contact No.
1b. Directorate	1e. Service Manager Name & Contact No.
1c. Lead Member	1f. Finance Officer Name & Contact No.
<b>2. LEGAL</b>	
2a. What is the legal status of the organisation?	
2b. What 'partnership' documents are there? Where are they kept?	
2c. Who are the members of the partnership, if any?	
2d. How are decisions regarding the organisation taken?	
2e. What arrangements are in place to bring the partnership to an end?	
<b>3. FINANCIAL RECORDING</b>	
3a. Who is responsible for the financial running of the organisation?	
3b. Is LCC the 'Accountable Body' for any partnership arrangement?	
3c. How is the organisation funded?	
3d. If the organisation is grant funded by LCC, who is the granting directorate and what are the terms and conditions?	
3e. To what extent is FMS used to record the transactions of the organisation? Provide hierarchy/costcentre.	
3f. Does the organisation have any separate bank accounts? If yes, please provide details, including signatories.	



#### **4. FINANCIAL REPORTING**

- 4a. Who is responsible for undertaking/reviewing budget monitoring?
- 4b. Does the Partnership's performance get reported to FPG?
- 4c. Where else does the Partnership's performance get reported to and how often?
- 4d. Are Final Accounts produced for the Partnership? If yes, are they audited and who by?  
Are they filed i.e. with Charity Commission and/or Companies House?

#### **5. ASSETS AND LIABILITIES**

- 5a. Who owns the assets and liabilities of the organisation?
- 5b. Is there formal agreement between members to deal with assets and liabilities when the partnership ends?
- 5c. Has LCC made any loans to the organisation?
- 5d. What is the nature of any financial risk to LCC?
- 5e. What is the potential value of any financial risk to LCC?
- 5f. What financial guarantees has LCC made to the organisation? What financial guarantees has LCC made on behalf of the organisation? E.g. pensions guarantee to West Yorkshire Pension Fund

#### **6. OTHER**

- 6a. Is there any further information about the organisation, not covered above, which would assist with understanding the financial governance arrangements and any associated risks?

**Reviewed by:**

**Date:**

**Contact No:**