4.1 Governance structure

4.1.1 Each public sector organisation needs explicit arrangements for its internal governance, complemented by appropriate accountability. Most will have some key ground rules laid down in statute or by convention. But significant discretion usually remains. Those running the organisation should make, and then periodically review, decisions about how in practice the organisation should operate.

4.1.2 Box 4.1 contains a checklist of decisions that the governing body of each public sector organisation should take to clarify how it should operate. In a government department this will be for the management board or its equivalent; in many ALBs it will be for a statutory board of some kind.

4.1.3 In central government departments, it may be necessary to clear these decisions with ministers. It is good practice to document the chain of responsibilities and the processes by which they will be delivered. There should be clear records of the processes for reporting to the board, taking forward board decisions, and resolving disputes and uncertainties.

4.1.4 In central government departments, the board should be guided by the Corporate Governance Code. In particular, the board of a central government department should include a professional finance director (see guidance in annex 4.1). With appropriate adjustments, the same principles should apply in other kinds of organisation in the public sector.

4.1.5 The governing body of each public sector organisation should have clear arrangements for resolving disputes, including any concerns that the Accounting Officer may have. It should always be possible for the Accounting Officer to seek a written direction, if need be, from the appropriate authority, eg the minister in the case of a department. Sections 3.4 and 3.8 expand on this.
4.1.6 It is good practice to define the roles of the different kinds of board members, typically:

- executives drawn from the organisation’s staff;
- executives from operationally independent internal units, eg people from agencies within a department;
- non-executives from connected organisations, eg people from NDPBs (or other ALBs) sponsored by a department;
- independent non-executives, among whom a senior non-executive may be appointed as primary spokesperson; or
- (sometimes) members with specific responsibilities, eg for regional or professional issues.

4.2 Processes

4.2.1 Each public sector organisation should strive to attain and maintain the standards described in box 3.1, adopting or adapting good modern commercial practice where it makes sense to do so. The Civil Service Code (annex 4.2) shows what is expected of civil servants. The Ombudsman’s Principles of Good Administration (annex 4.3) sets out the standards against which services may be judged in the event of failure of delivery or complaint.

4.2.2 Each public sector organisation should have robust and effective systems for decision making. Box 4.2 sets out some key essentials. Some organisations may require special additional processes, eg where it is important to integrate scientific, artistic or other professional standards with administrative procedure.

4.2.3 A key concept in use of public funds is achieving value for money. It bears on nearly all aspects of deployment of public resources: procurement, asset management, disposals, administrative systems and financing arrangements such as leases and PFI transactions. It means finding solutions which achieve the best mix of quality and effectiveness for the least outlay. This may not always mean choosing the immediately cheapest option since, for instance, it may be more cost effective to buy a more reliable service or a better quality asset with lower maintenance costs and a longer operating life.

4.2.4 As part of reaching and maintaining high standards of ethical behaviour, all central government organisations should support the Treasury in meeting its obligations to Parliament under the Concordat (see annex 2.1). It is important that they are able to provide timely and accurate information to the Treasury about their planned and actual use of public funds (see section 5.1). So:

- departments should provide the Treasury with high level information about in-year developments of their expenditure, performance against objectives and evolution of risk (eg serious unforeseen events or discovery of fraud);
- ALBs should provide their sponsor departments with similar information; and
- the established mechanisms for controlling and reporting public expenditure, including Treasury support or approval where necessary, should be respected.
4.2.5 In particular, departments should consult the Treasury (and ALBs their sponsor departments) at an early stage about proposals to undertake unusual transactions or financing techniques. This applies especially to any transactions which may have wider implications elsewhere in the public sector (see paragraph 2.1.7 and box 2.3).

4.2.6 One such class of transactions is those involving tax planning or tax avoidance on the part of the supplier, often in the context of procurement. Generally, public sector organisations should avoid using tax advisers or tax avoidance schemes as any apparent savings can only be made at the expense of other taxpayers or other parts of the public sector.

4.2.7 It is important to assess the impact on the public sector as a whole in considering proposals for non-standard tax treatment. It is good practice to seek expert advice from Her Majesty’s Revenue and Customs (HMRC) before proceeding. Treasury approval is nearly always required because such transactions tend to be novel, contentious, or both (see section 2.1). Annex 4.4 discusses this further.

4.3 Opportunity and risk

4.3.1 Embedded in each public sector organisation’s internal systems there should be arrangements for recognising, managing and tracking its opportunities and risks. Each organisation’s governing body should make a considered choice about its desired risk profile, taking account of its legal obligations, ministers’ policy decisions, its business objectives, and public expectations of what it should deliver. This can mean that different organisations take very different approaches to the same risks.

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**box 4.2: essentials of effective internal decision making**

**choice**

- active management of the portfolio of risks and opportunities, drawing on the *Orange Book*
- appraisal of alternative courses of action using the techniques in the *Green Book*, and including assessment of feasibility
- where appropriate, use of pilot studies to provide evidence on which to make decisions among policy or project choices
- active steering of initiatives, eg using *Gateway™* reviews to help guide progress at critical points of projects

**operation**

- appropriate internal delegations
- regular and meaningful management information on costs (including unit costs), efficiency, quality and performance against targets to enable assessment of value for money
- proportionate administration and enforcement mechanisms, without unnecessary complexity
- periodic assessment of whether decisions taken remain appropriate, drawing on feedback from internal and external audit and elsewhere
- systematic iterative appraisal of risk, to track changes and make adjustments in response

**afterwards**

- after the event evaluation of policy, project and programme outputs and outcomes, including whether to continue, adjust or cease any lasting activities
- arrangements to draw out and propagate lessons from experience
4.3.2 There should be a regular discipline of reappraising the opportunities and risks facing the organisation as both alter with time and circumstances, as indeed the chosen responses may do too. In the public sector there is a common risk to reputation, since poor performance could undermine the credibility, and ultimately the creditworthiness, of the public sector as a whole. It is also important to be aware that excessive caution can be as damaging as unnecessary risk taking.

4.3.3 Decisions on how to control and manage risk generally draw from the five standard responses outlined in box 4.3. In choosing among them, factors to consider include cost, feasibility, probability and the potential impact. For routine processes, it is a good discipline to consider building in safeguards to manage risk out, or at least downwards, so that some protection is automatic. For other risks, it can be useful to consider the scope for risk sharing, or for copying or adapting the conditions imposed by commercial insurers, who often keep their premiums down by reducing risk potential.

4.3.4 Evidence from internal and external audit is especially valuable for those making decisions about how to manage and control opportunity and risk. Audit can provide specific, objective and well-informed insight to help an organisation evaluate its effectiveness in achieving the outcomes it seeks. It can be helpful for the audit committee to advise the governing board of a public sector organisation on the key decisions it must make on governance and managing opportunities and risks. In turn the board should support the Accounting Officer in drawing up the Statement on Internal Control (SIC), which forms part of the resource accounts. Further information on this important discipline is in the *Orange Book*.

**box 4.3:** responses to risk

- **take opportunities:** for circumstances where the potential gain seems likely to outweigh the potential downside
- **tolerate:** for unavoidable risks, or those so mild or remote as to make avoidance action disproportionate or unattractive
- **treat:** for risks that can be reduced or eliminated by prevention or other control action
- **transfer:** where another party can take on some or all of the risk more economically or more effectively, eg through insurance, sharing risk with a contractor, or management techniques such as public-private partnership
- **terminate:** for intolerable risks, but only where it is possible for the organisation to exit (note that some risks can only be assumed by the public sector)

4.4 Insurance

4.4.1 It is generally not good value for money for central government organisations to take out commercial insurance. This is because the public sector has a wide and diversified asset portfolio as well as a reliable income by virtue of the ability to raise revenue through taxation. So the public purse is uniquely able to finance the repair or replacement of damaged assets or deal with other crystallised risks, even very large ones. If the government were to insure its large range of risks, it would add to its costs, even allowing for the expense of remedying damage, because it would also have to meet the costs and profit margins of the commercial insurers.

4.4.2 However, there are some limited circumstances in which it is appropriate for public sector organisations to insure. They include legal obligations (eg arms length bodies should insure vehicles where the Road Traffic Acts require it) and, depending on the circumstances, wider markets activities (see section 7.11). In the latter case, it is important that the value or availability of public assets is not damaged by activities outside statutory requirements. Further information about insurance generally is in annex 4.5.
4.5 Control of expenditure

4.5.1 The Treasury coordinates a system through which departments are allocated administrative control totals for their public expenditure. Each department’s allocation covers its own spending and that of its associated ALBs. Within the agreed totals, it has considerable discretion over setting priorities to deliver the public services for which it is responsible. Public sector organisations should keep their use of public resources within the agreed budgets, and take them into account when entering into commitments.

4.5.2 Public sector organisations should also ensure that their use of resources is properly authorised and controlled. The nature of these arrangements will depend on the range of payments to be made, the techniques available and the risks to be managed (annex 4.6 provides advice on types of payments). It is good practice to review these systems from time to time to check that they are fit for purpose and deliver good value. A checklist of essential features is at box 4.4. Advice about countering and dealing with fraud is at annex 4.7.

<table>
<thead>
<tr>
<th>box 4.4: essentials of systems for committing and paying funds</th>
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<tr>
<td>• Internal controls to provide authority for acquiring the goods or services to be purchased (including controls on new suppliers), within any legal constraints.</td>
</tr>
<tr>
<td>• Authorisation for payment separated from the process of making the payment, with appropriate validation and recording at each step.</td>
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<tr>
<td>• Checks that the goods or services acquired have been supplied in accordance with the relevant agreement(s) before paying for them.</td>
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<tr>
<td>• Payment terms chosen or negotiated to provide good value.</td>
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<tr>
<td>• Invoices paid accurately when mature, once and on time, avoiding late payment penalties.</td>
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<tr>
<td>• A balance of preventive and detective controls to tackle and deter fraud, corruption, etc.</td>
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<tr>
<td>• Audit trails, which can readily be checked and reported upon both internally and externally.</td>
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<tr>
<td>• Periodic reviews to bring to bear any lessons from internal audit examination or other relevant experience, or to implement developments in good practice.</td>
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4.5.3 Where an organisation discovers an underpayment, the deficit should be made good as soon as is practicable and in full. If there has been a lapse of time, for example caused by legal action to establish the correct position, it may be appropriate to consider paying ex gratia interest, depending on the nature of the commitment to the payee and taking into account the reputation of the organisation and value for money for the public sector as a whole (see also section 4.11).

4.6 Receipts

4.6.1 Similarly, public sector organisations should have arrangements for identifying, collecting and recording all amounts due to them promptly and in full. Outstanding amounts should be followed up diligently. Key features of internal systems of control are suggested in box 4.5.
4.7 Unusual circumstances

4.7.1 Sometimes public sector organisations face a dilemma in dealing with transactions in public funds. They may have a legal or business obligation which it would be uneconomic or inappropriate to carry out assiduously to the letter. In such cases it may be right to seek a just, pragmatic and transparent alternative approach, appropriately reported to Parliament and set out in the organisation’s report and accounts. One-off schemes of this kind are nearly always novel and so require Treasury approval, not least because they may also require legislation or have to rest on the authority of the Appropriation Act. Box 4.6 suggests precedent examples.

Box 4.6: examples of one-off pragmatic schemes

- A court ruling could mean that a public sector organisation owed each of a large number of people a very small sum of money. It might cost more to set up and operate a payment scheme than the total payable. The organisation could instead make one-off donation(s) equal to the sum outstanding to one or more charities connected with the recipient group.

- A dispute with a contractor might conclude that the contractor owed a public sector body an amount too big for it to meet in a single year while staying solvent. The customer organisation might agree more favourable payment terms for the remainder of an existing contract instead, provided it was satisfied that this arrangement would be value for money, and with appropriate safeguards.

4.8 Dealing with initiatives

4.8.1 Public sector organisations need to integrate all the advice in this handbook when introducing new policies or planning projects. Each is unique and will need bespoke treatment. The checklist in box 4.7 may help to bring all the different factors together. It applies primarily to central government organisations but the principles will be of value elsewhere.
box 4.7: factors to consider when planning policies or projects

design
- Has the proposal been evaluated against alternative options, including doing nothing?
- Is there a case for pilot testing before full roll out?
- Are the controls documented clearly?
- Have the risks and opportunities been considered systematically? How will they be managed? Is the process resilient to shocks? What contingencies might arise?
- Is the intended policy proportionate to the perceived need for intervention?
- Will the outcome(s) to be delivered achieve adequate standards?
- Could the proposal be simplified without loss of function?
- If it is to operate with one or more partners, is the allocation of responsibilities documented?
- Will the proposal be efficient, effective and offer good value for money?
- Is the policy sustainable in the broadest sense? Should it have a sunset clause?
- Does the planned activity meet high standards of probity, integrity and honesty?
- Will the proposal deliver the desired outcome to time and cost in a feasible fashion?

control
- Is the proposal empowered in legislation? If not, what steps are needed to secure the necessary vires?
- Is the policy or project within European law, including limits on state aids?
- How will the proposal be financed? Is there budget and Estimate cover?
- Is the proposed action within the department’s delegated authorities?
- What Treasury agreement is required, if any?
- How will the internal governance and delegation work? Will it be effective? Is it transparent?
- What financial techniques will be used to manage rollout and implementation?
- Are project and programme management techniques likely to be useful?
- How will the intended new arrangements be monitored and efficiency measured?
- Are there arrangements to use feedback to improve outcomes?
- What safeguards are planned to encourage proper and accurate use of resources, prevent misuse and counter fraud?
- How will the associated risks be tracked and the responses adjusted?
- What intervention will be possible if things go off track?

accountability
- Should Parliament be told of the proposal? If so how?
- How will Parliament be kept informed of progress?
- What targets will be used? Are they stretching? Do they need to be linked to any PSAs?
- Should there be customer standards? Should there be feedback to learn from complaints?
- Should there be arrangements for redress after poor delivery?
- Is enforcement required? If so, is it proportionate?
- Is public access called for? How?
- Will any new policy or service be administered and enforced openly, fairly and impartially?
- Is an appeal mechanism needed?
- Is any regulatory oversight called for?

learning lessons
- What audit arrangements (internal and external) are intended?
- What information about and records of the activity will be published? How and how often?
- When and how will the policy or project be evaluated to assess its cost and benefits and to determine whether it should continue, be adjusted, replaced or ceased?
4.9 Staff

4.9.1 Each public sector organisation should have sufficient staff with the skills and expertise to manage its business efficiently and effectively. The span of skills required will depend on its objectives, responsibilities and resources. There should be an appropriate balance between those with professional, practical or operational skills and policy makers, recognising the value of each discipline. Succession and disaster planning should ensure that the organisation can cope robustly with changes in the resources available, including unforeseen disruption.

4.9.2 Public sector organisations should seek to be fair, honest and considerate employers. Some desirable characteristics are suggested in box 4.8.

### box 4.8: public sector organisations as good employers

- fairness, integrity, honesty, impartiality and objectivity
- clear lines of reporting and responsibility
- equal access to development opportunities to make good use of staff potential
- diversity valued and personal privacy respected
- processes to identify and deal with poor performance
- discipline to underpin the department’s integrity
- mechanisms to support efficient working practices, both normally and under pressure
- arrangements for whistle blowers to raise worries privately without personal repercussions

4.9.3 Similarly, public sector employers have a right to expect good standards of conduct from their employees. The qualities and standards expected of civil servants are set out in the *Civil Service Code* (annex 4.2). Other public sector employees should strive for similar standards, appropriate to their context.

4.10 Assets

4.10.1 All public sector organisations own or use a range of assets. Each organisation needs to devise an appropriate asset management strategy to define how it acquires, maintains, tracks, deploys and disposes of the various kinds of assets it uses. Annex 4.8 discusses some features that are usually worth covering in such a strategy.

4.10.2 An important part of asset management is good procurement delivering value for money. Public sector organisations should normally acquire goods and services through fair and open competition, using OGC advice to determine best practice. Annex 4.4 offers further advice on techniques. It is important to ensure that procurement is in line with European law, including restrictions on state aids, discussed further in annex 4.9.

4.10.3 It is good practice for public sector organisations to take stock of their assets from time to time and reconsider whether they are being used efficiently. If there is irreducible spare capacity there may be scope to use part of it for other government activities, or to exploit it commercially for non-statutory business - sometimes called wider markets activity. These can generate additional income for the organisation, improving its efficiency (see section 7.11).
4.11 Non-standard transactions

4.11.1 From time to time public sector organisations may find it makes sense to carry out transactions outside the usual planned range, eg:

- write-offs of unrecoverable debts or overpayments;
- recognising losses of stocks or other assets;
- long term loans of assets; or
- gifts of assets.

4.11.2 In each case it is important to deal with the issue in the public interest, with due regard for probity and value for money. Annexes 4.10 to 4.13 set out what is expected when such transactions take place in central government, including notifying Parliament.

4.11.3 Similarly, public sector organisations may have reason to carry out current transactions which would not normally be planned for. These might be:

- extra contractual payments to service providers;
- extra-statutory payments to claimants;
- ex gratia payments to customers; or
- severance payments to employees leaving voluntarily before retirement or the end of their contract.

4.11.4 Again it is important that these payments are made in the public interest, objectively and without favouritism. The disciplines Parliament expects of central government entities are set out in annex 4.13, which explains the notification procedure to be followed for larger one-off transactions of this kind. The steps to be considered when setting up compensation schemes, both statutory and ex gratia, are discussed in annex 4.14.

4.12 Standards of service

4.12.1 Parliament and the public do not find poor quality public services acceptable. Public sector organisations should therefore define what their customers, business counterparties and other stakeholders can expect of them.

4.12.2 Standards of this kind can be expressed in a number of ways. Examples include guidelines (eg response times), targets (eg take-up rates) or a collection of customer rights in a charter. In central government these will sometimes be defined in departmental strategic objectives or public service agreements (PSAs). Even where standards are not set explicitly, they may sometimes be inferred from the way the provider organisation carries out its responsibilities.

4.12.3 Whatever standards are set, they should be defined in a measurable way, with plans for recording performance, so that delivery can be readily gauged. It is good practice to use customer feedback, including from complaints, to reassess from time to time whether they remain appropriate and meaningful to customers.

4.12.4 Where public sector organisations fail to meet their standards, or where they fall short of reasonable behaviour in relation to those they do business with, it may be appropriate to consider offering remedies. These can take a variety of forms, including apologies, restitution (eg supplying a missing licence) or in more serious cases financial payments beyond what the law or contract strictly requires. When deciding whether financial remedies might be appropriate, each
organisation should consider the legal rights of the other party or parties, the potential effects on its reputation and the impact on its future business.

4.12.5 When central government organisations consider making such payments, whether statutory or ex gratia, they should follow the guidance in annex 4.14, which includes the PHSO’s Principles for Remedy. Any schemes of financial redress which are unusual or could have implications elsewhere should be discussed with the Treasury before commitments are made, just as with any other public expenditure out of the normal pattern (see sections 2.1 and 2.2).

4.13 Complaints

4.13.1 The PHSO (see www.ombudsman.org.uk) investigates complaints that government departments, a range of other public organisations in the UK and the NHS in England have not acted properly or fairly, or have provided a poor service. In the light of the investigation of a case, the PHSO decides whether those complaining have suffered injustice or hardship because of maladministration or service failure, and whether any injustice or hardship has been, or will be, remedied. The PHSO’s view is final, subject to judicial review by the courts.

4.13.2 Where maladministration or service failure is found, the PHSO may recommend that the public organisation concerned should provide redress for those complaining, and for any others who may have suffered in the same way. Further guidance about redress is at annex 4.14. If the PHSO considers that the injustice has not been, or will not be, remedied, the PHSO may lay a special report before Parliament. Such reports are examined by the Public Administration Select Committee.

4.13.3 There are a number of other organisations charged with investigating complaints and recommending further action where it is merited. Some of these are also called Ombudsmen. In general they operate according to similar principles to those governing the PHSO, though not with the same reporting arrangements to Parliament.

4.14 Transparency

4.14.1 All public sector organisations should operate as openly as is compatible with the requirements of their business. In line with public rights under the Freedom of Information Act 2000, the Data Protection Act 1998, the Environmental Information Regulations 2004, and the Re-use of Public Sector Information Regulations 2005, they should make available timely information about their services, standards and performance. This material should strike an appropriate balance between protecting confidentiality and open disclosure in the public interest. It is good practice to adopt a publication scheme routinely offering information about the organisation’s activities.

4.14.2 All public sector organisations should also publish regular information about their plans, performance and use of public resources. For instance, box 4.9 shows what is expected of central government departments.

**box 4.9: annual publications by central government departments**

- Estimates, including an Estimates memorandum
- resource accounts, including a Statement on Internal Control and a management commentary, subject to Treasury direction
- departmental reports: annual and autumn performance
- an account of corporate governance systems and performance
4.14.3 In addition, the Treasury is responsible for publishing certain aggregate information about use of public resources, for example including comparisons of outturn with budgets. Office for National Statistics (ONS) also uses input from data gathered by the Treasury to publish the national accounts.

4.14.4 In certain areas of public business it is also important or desirable to provide adequate public access to physical assets. Unnecessary or disproportionate restrictions should be avoided. Managed properly, this can be a valuable mechanism to promote inclusion and enhance public accountability.

Annex 4.1 Finance Directors
Annex 4.2 The civil service code
Annex 4.3 Principles of good administration
Annex 4.4 Procurement
Annex 4.5 Insurance
Annex 4.6 Expenditure and payments
Annex 4.7 Fraud
Annex 4.8 Asset management
Annex 4.9 State aid
Annex 4.10 Losses and write-offs
Annex 4.11 Overpayments
Annex 4.12 Gifts
Annex 4.13 Special payments
Annex 4.14 Remedy