

Appendix 3: Guidance for council appointees to outside bodies

1. Introduction

- 1.1 This guidance is intended to assist those appointed to outside bodies to understand their roles and responsibilities as well as the liabilities they may attract in connection with their involvement with these organisations. Councils are increasingly working in partnership with external organisations. This means that it is important that everyone is clear exactly what the role of individuals appointed to these bodies is. Questions of accountability and governance are likely to arise particularly as more funding may be channelled through the council to these outside bodies.
- 1.2 Membership of an outside body brings into play different considerations to those which relate to council membership. As members of outside bodies, appointees will have different duties, obligations and liabilities depending upon the type of organisation involved. Roles on these outside bodies may appear to conflict, sometimes with each other, and sometimes with the individuals position within the council. This can be eased by giving clear guidance, which is what this document aims to do. Paragraphs 7 and 8 of this Protocol provides information on registering interest and information on dealing with conflicts of interest are set out in paragraph 9.
- 1.3 Depending on the legal nature of the body and the role fulfilled the appointee may attract personal responsibility for decisions and actions of the body. It is the appointee's responsibility to ensure that they are aware of their liabilities and any insurance arrangements that are in place where they participate in outside bodies. Paragraphs 2 and 3 of the protocol set out the general roles and responsibilities for members on outside bodies.
- 1.4 The council will indemnify members and officers representing the council on outside bodies in many circumstances. There are however specific statutory limitations as to the extent of indemnification the council is able to provide. These are set out in paragraph 16 of the protocol.
- 1.5 Members can serve on outside bodies in their personal capacity provided that there is no conflict of interest with their duties as a member of Herefordshire Council. Again, advice is available to help members assess their position.
 - consider if there is likely to be any significant conflict of interest between their role in the outside organisation and their council role before accepting the office;
 - clarify the insurance arrangements (does it cover the key risks of the organisation as well as the member and is the liability limited or unlimited) and assess the possibility of any implications on themselves as individuals (specifically consider the nature and function of the body and the amount of money it deals with – always be aware of the added risk where the organisation employs staff);
 - if no insurance exists this must be weighed up in the decision to accept the appointment;
 - ask about any specific legal responsibilities attached to the membership of the organisation;
 - read the constitution of the organisation and be aware of its powers, duties and objectives;
 - attend meetings regularly and present apologies in good time when they are unable to attend;
 - satisfy themselves that they receive regular reports on the activities of the organisation and its financial position;

- satisfy themselves that the organisation has adequate Health and Safety and Equalities Policies;
- obtain a copy of the annual report and accounts to ensure that funds are spent on agreed objectives where the organisation is funded by or through the council; and
- seek advice from the appropriate council officers in the event of any doubt or concerns about the running of the organisation.

2. The responsibilities of the councillor

2.1 In carrying out the role of a representative on the outside body, councillors act both as individuals and as representatives of the council:

2.2 Members should:

- act according to the rules, constitution and framework set by the outside body;
- take an active and informed role in the outside body's affairs;
- make independent and personal judgements in line with their duty of care to the outside body;
- report back to Herefordshire Council annually;
- promote equality as an integral part of the role and to treat everyone with fairness and dignity;
- from time to time it is possible that a conflict of interest may arise between the role of the councillor and the role they are undertaking on an outside body. Members are referred to in paragraph 11. Members are advised to seek legal advice before setting off on a course of action.
- behave ethically and follow as far as applicable the code of conduct for members; and
- wherever possible approach the lead officer for the outside body for a briefing on agenda items before attending meetings of the outside body.

2.3 Members should not:

- represent the political party to which the councillor is aligned;
- consider matters purely from the council's perspective;
- commit the council to any expenditure; (in accordance with the council's financial procedure rules any additional expenditure requests must be authorised by the appropriate person or body).

3. The role of the councillor

3.1 The role of council representatives on outside bodies will vary but essentially the role will be:

- to help to secure any objectives of the council in participating in the organisation;
- to help the organisation to achieve its aims and objectives legally, properly and effectively;
- to meet any specific legal responsibilities attached to membership of the organisation; and
- to safeguard the council's interest on those organisations which are funded by or through the Council.

4. Expenses, remuneration and benefits

- 4.1 As a general rule Members should not benefit personally from their appointment to outside organisations.
- 4.2 Travel and subsistence expenses should be claimed through the organisation if available otherwise through the council in accordance with the constitution (part 6 – councillors allowance scheme).
- 4.3 Any councillors offered any gift or hospitality, in their capacity as members must treat the offer in accordance with the constitution
- 4.4 Free access to a company's facilities should only be accepted where it is necessary to discharge duties and responsibilities as a director and should be declared to the Council.
- 4.5 The code of conduct should be followed at all times.

5. Representatives reporting back

- 5.1 Councillors are under a specific obligation as a result of the 1995 Local Authorities (Companies) Order to report back to the council on their involvement in outside companies to which they have been nominated by the council. Where the council provides financial assistance to a charity or voluntary organisation of over £2,000 per annum then the body is under an obligation to state in writing to the council how the funding has been used (s137A Local Government Act 1972).
- 5.2 While the law now makes this a requirement for involvement in outside companies, it is self-evident that the requirement to report back should apply to involvement in all outside bodies. It is important that anyone who is appointed to an outside body provides appropriate information on what the organisation is doing. Members are not required to disclose information which is commercially confidential to the body.
- 5.3 Accordingly members are required to submit their annual report to the Monitoring Officer. The reports will then be circulated to all members. Where there is more than one member appointed to an outside body a joint submission should be made.
- 5.4 There are a number of organisations to which the council appoints members where more regular feedback from members would be appropriate. In these circumstances members or officers attending the meeting should provide a brief summary for dissemination to all members and relevant officers.

6. Further advice

- 6.1 Relationships between the council, outside bodies and the council's representative can be complex. In any case of dispute or difficulty, Members should seek advice from the secretary or clerk to the outside body, who can then take advice from professional advisors where necessary.
- 6.2 If Members are concerned about the position they find themselves in as a councillor on an outside body, they should contact the Monitoring Officer for further advice.

7. Interests

- 7.1 Members are required to register interests in line with the council's constitution.

8. Council's code of conduct – general provisions

8.1 The council code of conduct requires that a member must observe the code of conduct whenever the Member is acting as a representative of the authority.

9. Conflicts of interest

9.1 Appointment to an outside body can take various forms, and before taking up active membership it is advisable to establish exactly in what capacity the member is being appointed.

9.2 If members are appointed to an outside body they will have a personal interest in that body and will need to consider their position when they sit on council, the executive, a council committee or other decision-making body which is considering a matter which relates to that body.

9.3 If Members attend a meeting where there is an item of business which relates to or affects the outside body, they will need to disclose the interest at the meeting, regardless of whether or not they were appointed onto the outside body by the council, or by the outside body itself. This may not be a report which specifically mentions the body, but will affect it. For example, the budget setting meeting of Full Council can have implications for council funding of voluntary organisations.

9.4 The next issue is to consider whether they also have a Disclosable Pecuniary Interest (DPI) which would require them not only to disclose it but also to withdraw from consideration of that item of business.

9.5 If a Member does decide that they have a DPI, they must disclose this and leave the meeting room and not influence the debate or decision in any way. If the council body making the decision has a policy of allowing members of the public to speak, members can use this avenue legitimately to speak to the meeting but they must follow the rules of the public speaking session and then leave the room as soon as they have spoken on the matter.

9.6 Members should take advice from the Monitoring Officer if any situation arises where they think they might have a problem with an interest arising from their involvement with the outside body.

9.7 Whilst a failure by a member to disclose a personal interest, or to disclose and withdraw for a DPI, may lead to sanctions against the individual councillor, it will not of itself invalidate the decision of the authority in which the councillor participated. However, where there is a real possibility that the decision of the council might have been affected by bias or predetermination on the part of one or more councillor, that decision can be held by a court of law to be invalid. Members therefore need also to be careful about the possibility of bias and predetermination when they are dealing with matters involving an outside body on which they serve.

9.8 Any councillor who is about to take part in a decision, either collectively with other councillors or via decision, must not allow themselves to be unduly influenced by their allegiance to any outside body or individual, nor should they give the impression that they might be influenced by it. That is bias and apparent bias. It arises because of a connection to an outside body or person.

9.9 It also follows that, whilst a councillor may have preferences and predispositions, they must not finish the decision-making process until they have received and considered all the relevant information relating to the matter. To do so would be predetermination. Whilst it is accepted that councillors live in the real world and will discuss matters with colleagues and constituents, and bring the benefit of those

discussions to the committee room, they must still listen to the arguments and be prepared to change their mind if the evidence presented requires it.

- 9.10 From this it will be apparent that particular difficulties arise where a councillor is a member of an outside body such as a pressure group, which is seeking to influence the authority's decision on a particular matter, as such membership can readily be taken as evidence of bias and/or predetermination. On occasion, and particularly in respect of local, single issue pressure groups, a member may have to choose whether to be a campaigning councillor, participating in a pressure group, or to remain outside the campaign but be able to vote on the issue when it comes before the council.
- 9.11 In some instances a member may also find that they are unable to properly carry out their functions as a member of the council and a member of the outside body. In these instances the member may consider resigning from one body or another. Members should seek advice from the Monitoring Officer before taking such action.

10. Limited company

- 10.1 A company has a separate legal personality to its shareholders (also described as company members or subscribers). One of the main advantages of acting through a limited company is that shareholders can claim the benefit of limited liability. In the case of a company limited by shares this means that they will not be liable for the debts of the company if the company makes losses over and above the amount which they have pledged to pay the company for their shares. In a company limited by guarantee this means that the shareholders 'guarantee' to contribute a specified sum if called upon to do so (usually a nominal amount of £1) in the event that the company goes into insolvent liquidation.
- 10.2 An appointment as a director of a company needs to be confirmed by the completion of a form (known as '288') which needs to be signed and submitted to Companies House. The secretary of the outside body should assist you with this.
- 10.3 The directorship should also be recorded in the Council's Register of Members' Interests (within 28 days of the appointment). Directors take responsibility for all the main decisions in relation to the operation of the company, including entering into contracts.
- 10.4 The position of council members acting as company directors is that although members have been appointed by the council they have a duty to act in the best interest of the company.
- 10.5 Although members are advised to consider the specific rules pertaining to the company they have been appointed to, the general legal responsibilities of company directors are:
- to ensure that the company acts within its legal powers;
 - to act honestly and in good faith in the best interests of the company;
 - not to make a personal profit and to take proper care of the assets;
 - to avoid conflicts of interest and not to allow personal interest to influence action as a director;
 - to record personal interests in the company's Register of Director's Interests;
 - to act with reasonable competence and care;
 - to exercise reasonable skill and care (this is a subjective test based upon the individual's own knowledge and experience); and
 - not knowingly allow the Company to trade fraudulently, recklessly or in an insolvent position.

10.6 Council appointed directors are advised to:

- clarify the insurance arrangements and assess the possibilities of any implications on themselves as individuals;
- to be familiar with the Articles and Memorandum of Association of the company;
- to ensure that their interests are registered with the company;
- to attend board meetings regularly, read the agenda in advance and seek a briefing from officers where necessary;
- to ensure that the company has proper procedures for reporting performance and financial information to board members at each meeting;
- to take an interest in the appointment of the management of the company to ensure that suitable qualified and experienced managers are in place;
- to ensure that the company has adequate Health and Safety and Equalities Policies; and
- to seek advice from the appropriate council officers if in any doubt about the financial viability of the company or any aspect of its operation.

10.7 Members need to be particularly careful when acting as a company director if there is any prospect of the company becoming insolvent i.e. not having sufficient assets to pay its debts. When a company becomes insolvent, or it is foreseeable that it will be insolvent, directors of the company have a higher duty of competence and attention to company business than when the company is still solvent. If they fail to take every possible step to minimise the company's debts, they may be personally liable for any additional losses suffered by creditors of the company ("wrongful trading"). A director may be found guilty of fraudulent trading (a criminal offence) if they allow the company to trade with an intent to defraud creditors.

10.8 If you become a Company Director there are some useful guidance documents to assist you on the websites of the [Institute of Directors](#) and [Companies House](#).

10.9 There may be occasions where conflicts of interest arise between the council and the company. Some examples are:

- contracts between the two;
- negotiations on agreements, such as terms of leases;
- applications for council permission, e.g. planning consent.

10.10 This may mean that the primary responsibility to the company could conflict with the council's interest.

10.11 In these circumstances, Members are advised to declare a DPI at any council meetings or discussions and should withdraw from the decision making process.

11. Charitable trustees

11.1 To be a charity an organisation must operate for one of the four charitable purposes, namely:

- the relief of poverty and human suffering;
- the advancement of education;
- the advancement of religion; and
- another purpose for the benefit of the community.

11.2 It must operate for the public benefit and have exclusively charitable purposes. An organisation which operates for political purposes will not qualify for charitable status.

11.3 Trustees duties include:

- the need to act in accordance with the constitution of the charity;
- not making a private profit from their position;
- acting honestly and in good faith in the best interests of the charity;
- ensuring that information relating to the charity and trustees is registered with the charity commissioners and annual accounts, reports and returns are completed and sent;
- ensuring that the body acts in accordance with the overriding duty to the beneficiaries of the trust;
- ensuring compliance with all relevant legislation (e.g. in relation to tax and land matters); and
- council representatives are advised to clarify the insurance arrangements and assess the possibilities of any implications on themselves as individuals.

11.4 There is now a statutory duty of care under the Trustee Act 2000 which applies when a Trustee is:

- exercising a general power of investment or any specific power of investment arising from the trust;
- making investments in line with the Standard Investment Criteria under section 4 of the Act or taking independent advice on investments under section 5;
- exercising the power to acquire land or deal in land;
- appointing agents, custodians or nominees or in reviewing their obligations;
- compounding liabilities under section 15 of the Trustee Act 1925;
- insuring trust property; and
- dealing with reversionary interests, valuations or audits.

11.5 The standards of care expected of trustees is that which is reasonable in the circumstances, taking into account any particular skills or competencies possessed by the individual. Additional information relating to the responsibilities for charitable directors and trustees is available on the Charity commission's website <http://www.charity-commission.gov.uk>.

12. Partnerships

12.1 The Council representatives on partnerships have three main roles:

- to promote the council's objectives in participating in the partnership;
- to ensure that the partnership delivers its own objectives;
- to safeguard the council's interests within the partnership, particularly where the council is a funding partner or the accountable body for external funding

12.2 Council representatives on partnerships are advised to:

- be clear on the council's own objectives in participating in the partnership;
- read the constitution of the partnership and be aware of its objectives and powers;
- attend partnership meetings regularly, read the agendas in advance and seek briefing from officers where necessary;
- ensure that the partnership has proper procedures for reporting progress and financial information; and
- take an interest in the appointment of key staff.

13. Unincorporated organisations

- 13.1 Groups which are not charitable trusts or limited companies are 'unincorporated associations' and have no separate legal identity from their members. The rules governing the Members' duties and liability will be set out in a constitution, which is simply an agreement between the members as to how the organisation will operate. Usually the constitution will provide for management committees to be responsible for the everyday running of the organisation. An unincorporated organisation may be charitable and therefore register as a charity.
- 13.2 Management committee members must act within the constitution of that outside body and must take reasonable care when exercising their powers.
- 13.3 If Members become involved in the administration of an unincorporated body, they need to be aware that, as the body has no separate corporate status, any liabilities will fall upon the members personally. This means that if something goes wrong and the organisation is sued, the members/owners personal assets are at risk – they cannot stand behind a company or other body which gives them some protection.
- 13.4 If members take on personal responsibilities for the organisation, such as buying equipment or renting premises, they are personally liable for the entire cost, and can only recover those costs from the organisation to the extent that it actually has the money to reimburse them, or from the other members of the organisation to the extent that the membership agreement gives them the right to be reimbursed by each of them.
- 13.5 Members need to be very careful about the risk of personal liability and the extent to which this has been covered by insurance arrangements (either arranged by the organisation itself or by the council or by indemnities).

14. Indemnity for members

- 14.1 The council may only indemnify members in certain circumstances as prescribed by the Local Authorities (Indemnity for Members and Officers) Order 2004.
- 14.2 The council will provide an indemnity in relation to any action or failure to act by any member which:
- is authorised by the council;
 - forms part of, or arises from, any powers conferred, or duties placed, upon that Member at the request, or with the approval of the authority including acting as the council's representative on an outside body;
 - arises in respect of the cost of defending any claim for an allegation of defamation by a member acting in an official capacity (but not in respect of any punitive or exemplary damages or arising from malicious or injurious falsehood);
 - is in respect of any investigation, hearing or other proceedings for an alleged failure to comply with the code of conduct for members but, if the member is found to have breached the code of conduct, and where an appeal is unsuccessful, then that member shall reimburse the authority or the insurer for their costs incurred in relation to those proceedings;
- 14.3 The indemnity includes an act or omission subsequently found to be beyond the powers of the member in question, but only to the extent that the member reasonably and genuinely believed that the act or omission was within their powers at the time they acted.

- 14.4 The indemnity does not apply to the defence of any criminal proceedings brought against a member unless specifically approved by the council and then only on a similar basis to that relating to proceedings for breaches of the code of conduct.
- 14.5 It is possible in some circumstances for the council to indemnify (i.e. stand behind the councillor and pick up any personal legal liabilities/costs/damages which the councillor incurs as a result of his/her appointment to an outside body). The council currently has Indemnity insurance cover in place which covers members on outside bodies but it may be necessary to consider issues on a case by case basis. Please speak to the Monitoring Officer if you have any cause for concern that an outside body with whom you are involved is getting into difficulty or you have any indication that you might be getting involved in potential personal liability