

GOVERNANCE REVIEW**JOINT REPORT OF THE CHIEF FIRE OFFICER,
TREASURER AND MONITORING OFFICER****For Information****1. PURPOSE OF REPORT**

- 1.1 The purpose of the report is to provide an overview of the Authority's Governance arrangements and lessons learnt in relation to the operation of the Community Interest Company.

2. RECOMMENDATIONS

- 2.1 It is recommended that Members:

(i) Note the following actions:

Action 1 - The Chief Fire Officer, Treasurer and Monitoring Officer will record their discussions from operational meetings.

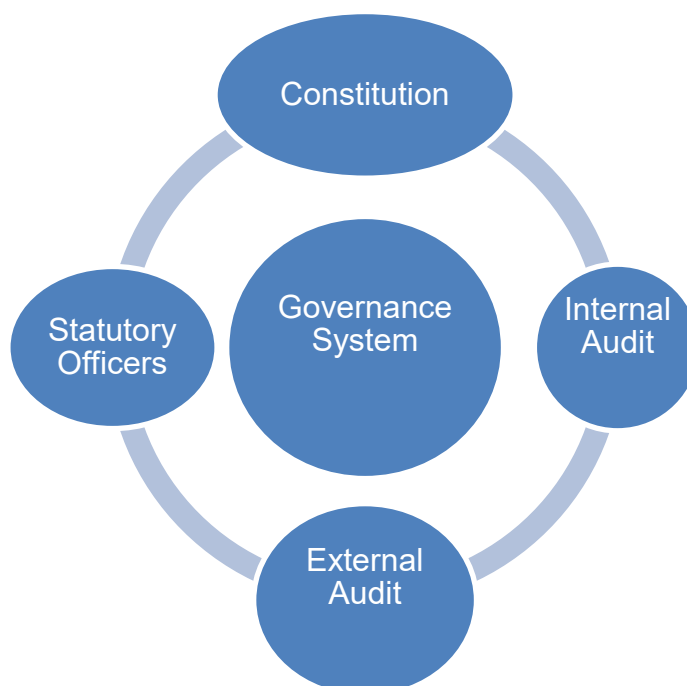
Action 2 - The Chief Fire Officer and the Treasurer will record their discussions from operational meetings with the External Auditors.

(ii) Note the Executive Leadership Team and the Monitoring Officer will review arrangements for the Deputy Monitoring Officer role.

(iii) Note the lesson learnt in relation to the CIC detailed in section 7.5.

3. BACKGROUND

- 3.1 The Authority's Governance arrangements consist of four key components, as a highlighted below. All four elements need to be functioning effectively to ensure the Authority maintains robust and effective Governance arrangements.

Overview of Governance Arrangements

3.2 The following sections provide more detailed information in relation to the above.

4. CONSTITUTION

4.1 The Authority is a corporate body and for many purposes, has the status, rights and duties of a local authority under the Local Government Act 1972 and other local government legislation, including statutory responsibilities for functions set out in:

- The Fire Rescue Services Act 2004
- The Civil Contingencies Act
- The Regulatory Reform (Fire Safety) Order 2005

4.2 As the key foundation for good governance the Authority's Constitution sets out how the Authority operates, how decisions are made and the procedures and legislation followed to ensure an efficient, effective, transparent and accountable service is delivered to the local community. Some of these processes are required by law, whilst other are matters for the Authority to agree. The Constitution is reviewed annually by the Authority.

4.3 The Constitution is a comprehensive document running to 205 pages, covering 9 sections:

- **Section 1 - Governance**

Details the Authority's membership, committee structure and governance information.

- **Section 2 Terms of Reference and Delegated Powers**
Details the terms of reference and delegated powers of the Authority and Committees.
 - **Section 3 - Scheme of Delegation**
The Delegation Scheme sets out the terms and limitations upon which the Authority has empowered its Authorised Officers, this includes additions in line with the requirements of the Public Service Pension Act 2013 and Regulations made thereunder.
 - **Section 4 - Financial Procedure Rules**
The Financial Procedure Rules details responsibilities and accountabilities.
 - **Section 5 - Standing Orders**
Standing Orders of the Authority in respect of Proceedings and Business.
 - **Section 6 - Contract Procedure Rules**
The Contract Procedure Rules ensure the Authority meets the expected standards in the procurement of goods, works and services.
 - **Section 7 - Ethical Governance Framework**
 - Anti-Fraud and Anti-Corruption Strategy
 - Standards and Partners
 - Member Code of Conduct
 - Register of Members Interests
 - Gifts and Hospitality
 - Arrangements for dealing with Standards allegations
 - **Section 8 - Members Allowance Scheme**
The Members Allowance Scheme details the governance of the scheme which is currently under review.
 - **Section 9 - Code of Corporate Governance**
The Code of Corporate Governance sets out how the Authority carries out their responsibilities in accordance with legislative and regulatory requirements whilst demonstrating accountability, transparency, effectiveness, integrity, impartiality, inclusivity and efficiency.
- 4.4 The Audit and Governance Committee has a key role in ensuring the Authority maintains effective Governance arrangements as detailed in the remit of the Committee attached at **Appendix A**.
- 4.5 The effective operation of the Constitution is based on robust and comprehensive reports from Officers setting out the issues to take account of when making decisions, alongside their professional recommendations and the rationale for those recommendations. Officer advice is underpinned by their professional integrity, which reflects the issues covered in section 5, and professional standards they are required to comply by their professional bodies.

- 4.6 Whilst it is difficult to evidence the effectiveness of officer reports we believe our approach is based on our respective professional integrity and the culture of 'speaking truth to power', for example:
- Pre-HMICFRS (His Majesty Inspector of Constabulary and Fire and Rescue Services) report presented by the Chief Fire Officer identify areas of improvement where action plans will be developed;
 - Medium Term Financial Strategy reports clearly detail the implications of Council Tax increases and compares this to the implications of not increasing Council Tax on the level of resources available for services.
- 4.7 The Authority's independent External Audit do not provide assurance in relation to the robustness of individual reports, as this is an officer responsibility. However, they do provide an assessment of the overall framework for decision making as part of the annual audit process, which provides the Authority with assurance, or identifies areas for improvement.

5. **STATUTORY OFFICER ROLE AND RESPONSIBILITIES**

- 5.1 All Local Authorities, including Fire and Rescue Authorities (FRAs) are required to appoint three statutory officers as detailed below:

Statutory officer required by legislation	Officer holding this role in the Authority
Head of Paid Service	Chief Fire Officer
Monitoring Officer	Legal and Monitoring Officer
Section 151 / Chief Financial Officer	Treasurer

- 5.2 The statutory basis of these roles highlights the critical role these posts play in the governance of an organisation, and this position is reflected in recently published guidance attached at **Appendix B – The Golden Triangle: Governance Roles and Responsibilities**. This document has been jointly published by CIPFA (Chartered Institute of Public Finance and Accountancy) SOLACE (Society of Local Authority Chief Executives and LLG (Lawyers in Local Government).
- 5.3 Appendix B makes many references to Chief Executive/Head of Paid Service and in this Authority the Chief Fire Officer undertakes this role.
- 5.4 The guidance outlines how the head of paid service, chief finance officer and monitoring officer should work together to ensure efficiency and transparency are delivered and maintained at the top of the authority. The three roles have distinct responsibilities and while they all differ, the guidance states they must be properly aligned at all times. This needs to be based on a constructive relationship between the three officers and they should have regular meetings (with minutes), which should often include the head of internal audit, to review current and likely future issues that will raise political, financial, legal, staffing or other issues that may impact on their statutory duties.

Action 1 - whilst the three officers meet regularly / discuss specific issues as they arise minutes for these meeting are not currently produced as the majority of discussions end up in a Committee report. Going forward minutes will be produced, circulated promptly for agreement and then formally approved at the next meeting.

- 5.5 The Chief Fire Officer and Treasury also meet regularly with the external Auditors as these discussions are focused on financial issues and the operational impact. Minutes for these meetings are currently not completed.

Action 2 - Minutes will be produced, circulated promptly for agreement and then formally approved at the next meeting. Any issues relevant to the Monitoring Officer will be discussed in the regular meetings referred to under section 5.4 or raised separately if urgent.

- 5.6 The guidance highlights the following duties and responsibilities; we have added our assessment / actions against these issues:

Duties and responsibilities	Our assessment /actions (where needed)
Lead ethically – embed the Nolan Principles into the organisation	Comply – leadership and behaviours of the three statutory officer and ELT Nolan principles embedded in the constitution through Codes of Conduct.
Act wisely – attend meetings and produce reports to play an important role in important decision	Comply - Three statutory officers attend full Authority, Executive Committee and Audit & Governance Committee. These officers also liaise on advice and recommendations detailed in reports.
Act effectively – have autonomy, work together and remain up to date with changes in practices	Comply – statutory officers lead on their respective areas of professional competence / responsibility, work together when required and keep up to date with current practices (for Treasurer and Monitoring officers this a professional development requirement).
Understand governance – advice and support while recognising the separation of powers between the roles	Comply – statutory officer have a clear understanding of their specific roles and the other two statutory roles. Position reinforced within the Authority's Constitution.
Build resilience – embed governance awareness across the authority and make arrangements for deputization of the roles	Comply – leadership and behaviours of the three statutory officer and ELT. Monitoring Officer and Head of Audit and Governance provide annual governance training to managers.

	<p>Deputy for Chief Fire Officer – provided by the two ACFO – Directors</p> <p>Deputy for Treasurer – Section 151 Officer for Hartlepool Council</p> <p>Deputy for Monitoring Officer is covered by section 5 (7) of the Local Government and Housing Act, 1989, which states <i>'The duties of a relevant authority's monitoring officer under this section shall be performed by him personally or, where he is unable to act owing to absence or illness, personally by such member of his staff as he has for the time being nominated as his deputy for the purposes of this section.'</i></p> <p>The Monitoring Officer has previously appointed three Deputy Monitoring Officers from the Borough Councils. This will be reviewed by the Executive Leadership Team and the Monitoring Officer.</p>
Deliver sound decision making – ensure the authority has appropriate procedures in place, regularly review governance and performance against the business plan	Comply – covered by this report and the range of reports submitted during the year to the various Committees
Resource the roles – make clear what staff and other resources are necessary to perform the duties	<p>Comply – any proposed changes to staff and other resources will clearly detail the impact on resourcing these roles.</p> <p>It is worth noting that as a small Authority, which still has to comply with the same rules and regulations as larger authorities, the Authority benefits from finance expertise delivered through the Service Level Agreement with Hartlepool, such as Treasury Management, preparation of accounts and provision of payroll and financial management systems. Providing these on a standalone basis would be more expensive and expose the Authority to areas where there are skills shortage in the region.</p>

6. INTERNAL AND EXTERNAL AUDIT ARRANGEMENTS

6.1 Internal and External Auditors have a key role in ensuring the Authority has effective governance arrangements, whilst having slightly different objectives:

- **Internal Audit**

Is focused on providing management of the Authority (i.e. the Chief Fire Officer and elected Members) with an assessment of the effectiveness of the internal control environment.

- **External Audit**

Is focused on providing the Authority with an annual assessment on the financial accounts and value for money arrangements.

The Authority opted into the Public Sector Audit Appointments (PSAA) process, which is used by the majority of local authorities, to appoint the independent external audit. This arrangement means the Authority does not decide who to appoint as external auditors – which provides 100% independence.

6.2 Internal and External Audit liaise carefully to avoid duplication and target their resources. Both report their findings and recommendation independently to the Audit and Governance Committee and / or full Authority where appropriate. They then monitor and report back on progress against recommendations. These arrangements provide the Authority with a high level of independent assurance.

7. REVIEW OF CIC GOVERNANCE ARRANGEMENTS

7.1 **Background**

7.2 The CIC was established in 2011, and the first full year of trading was 2012/13. The company is 100% owned by Cleveland Fire Authority as a CIC so that it can reinvest its profits into community projects that enhance safety. This means the company operates for the benefit of the community rather than the Company shareholder in accordance with The Community Interest Company Regulations 2005.

7.3 At the time the CIC was established there were two keys protections which needed to be in place for the Authority:

- **Financial Protection**

This was a fundamental requirement as the Authority did not want to be in a position of having to subsidise the CIC if it made a financial loss. This protection was achieved in the initial subscribers to the Memorandum of Association; the Cleveland Fire Authority is the first (and only) member of the CIC. Further, the liability of the Authority is limited to the nominal value as set out in the Articles of Association. In the case of the CIC this is prescribed as being limited to £1. This is the amount that the Authority undertakes 'to contribute to the assets of the Company in the event of its being wound up...'

As evidence by the liquidation of the CIC this protection has been effective as the liability has been limited to £1, plus the “value of services” between the Authority and the CIC.

As reported to the Extraordinary Fire Authority on 1 August “the value of services’ provided to the CIC included loans and charges made under a Service Level Agreement. The Authority received payment for the majority of these charges. However, following the liquidation of the CIC £69,100.11 will be irrecoverable and will need to be written off by the Authority. To avoid this amount impacting on services it was recommended this write off is funded from investment income earned in the current year, which is exceeding the budget forecast. The position is summarised below:

	Gross amount due to Authority £	Payments received from CIC £	Net Amount Outstanding £
Operation Vehicle loan	423,621.00	(423,621.00)	0
Command Solution loan	150,000.00	(81,939.79)	68,060.21
Service Level Agreement **	54,349.80	(13,695.52)	41,039.90
Payment received in previous years	0	(40,000.00)	(40,000)
Net Amount outstanding	627,970.08	(559,256.31)	(69,100.11)

** Relates to 2024/25 and part year 2025/26. All amounts payable prior to 2023/24 were paid in full.

- **Reputational Protection**

This was more difficult to achieve in light of the primary focus being on financial protection for the Authority, as it meant the CIC Board needed to have significant operational independence.

When the CIC was initially set up the then Chief Fire Officer was appointed as Chair of the CIC and the other Board Members were the then Directors of the Authority. This approach was designed to recognise the financial and reputational issues of establishing and then growing the CIC.

Over time the CIC approached the Authority to approve changes in the Board, which reduced the officers of the Authority serving on the Board and brought on Directors with experience in the private sector, who it was intended would bring commercial skills and experience to help support the development of the CIC.

7.4 **Lessons Learnt**

- 7.5 The table below highlights issue in relation to the set up and operation of the CIC, and lessons learnt.

Issue	Lessons Learnt
<p>Initial set up of CIC</p> <p>The set up provided the CIC Board with operational independence which was necessary to operate within a commercial environment. Under these arrangements reporting to the Authority was limited to an annual report after the financial year end.</p> <p>This meant the financial outturn was typically reported in November for the financial year ending in March.</p>	<p>The initial set up of the CIC has limited the financial liability of the Fire Authority to £1 (excluding any services provided by the Authority to the CIC). The liquidation process has demonstrated this was effective in protecting the financial position of the Authority.</p> <p>The CIC should have been required to provide a quarterly Profit and Loss report and Balance Sheet to the Authority. This is the minimum information we would expect to be presented to the CIC Board, so should not have been an additional requirement.</p> <p>This arrangement would have identified potential financial issues earlier and enabled the Authority to ask the CIC Chair questions.</p> <p>To make this arrangement effective the Authority could have established a dedicated "CIC oversight committee" to receive these reports – for example Chair and Vice Chair of Authority, Chair of Audit and Governance Committee and Treasurer (current Treasurer has never been a CIC Board Members) to provide technical support.</p>
<p>Board Members of CIC</p>	<p>As detailed earlier in the report when the CIC was initially set up the then Chief Fire Officer was appointed as Chair of the CIC and the other Board Members were the then Directors of the Authority, as well as the Monitoring Officer and the previous Treasurer.</p> <p>This approach was designed to recognise the financial and reputational issues of establishing and then growing the CIC.</p>

	<p>With the benefit of hindsight, the Monitoring Officer and previous Treasurer should never have been on the Board of the CIC, as whilst these officers had the professional and personal qualities to act independently for both the Authority and the CIC, it was extremely difficult (if not impossible) to demonstrate this was the case.</p> <p>Furthermore, if both the Monitoring Officer and Treasurer had not served on the Board they could have supported the “CIC oversight committee” referred to above.</p> <p>Additionally, an exit plan and timetable to reduce the number of Authority Directors serving on the Board and replace with appropriate external appointments would have helped demonstrate independence between the Authority and the CIC. Under this arrangement it would, balancing the advantages and disadvantages, have been appropriate to appoint a Chair from the external Directors. The Chief Fire Officer could then have been an observer at all Board meetings, with this arrangement being agreed in writing with the CIC Board as a permanent requirement.</p>
Use of branding “Cleveland Fire Brigade” within CIC name.	<p>Whilst the initial set up of the CIC (referred to above) has protected the financial position of the Fire Authority, the use of the branding “Cleveland Fire Brigade” by the CIC makes it more difficult to demonstrate the legal independence of the CIC from the Fire Authority.</p> <p>The branding Cleveland Fire Brigade is held in high regard by the public and partners. Therefore, in future this branding should only ever be used by the Brigade and the Authority.</p>
Decision of CIC to stop using the Authority’s finance system and to make	This decision was understandable as the charge for the Authority’s finance

<p>their own arrangements with effect from August 2021</p>	<p>system was higher than alternatives aimed at small organisation.</p> <p>This change should not have reduced the financial information available to the CIC Board.</p> <p>However, this change needs to be considered in the context of the year end accumulated financial profit / (loss) disclosed in the CIC's accounts.</p> <ul style="list-style-type: none"> • 31.03.22 £213k cumulative profit • 31.03.23 £168k cumulative profit • 31.03.24 (£592k) cumulative loss <p>There is no direct evidence this change resulted in the financial difficulties encountered by the CIC.</p> <p>However, the move away from using the Authority's financial system removed the ability of the Treasurer to provide the Chair of the CIC with independent financial information to that supplied by the CIC staff, specially covering (a) cash balance in bank account and (b) analysis of creditors. Had this information been available during the financial years 2023/24 and 2024/25 the Treasurer could have addressed with the Chair of the CIC (who until September 2024 was also the Chief Fire Officer) and determined the appropriate reporting and corrective action.</p> <p>For example, with the benefit of hindsight we now know the significant cumulative loss at 31.03.24 commenced early in 2023/24 and it would have been clear at the time this position meant HMRC monthly payments were not being made. The corrective action may have either involved (a) the Board appointing specialist advisors earlier – a point the Liquidator made in when responding to questions at the August Authority meeting, or (b) the Board taking corrective action, or (c) the Board making an earlier decision to wind the</p>
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	<p>company up as it was not a viable going concerns.</p> <p>It needs to be recognised that this information should have been available to the CIC Management and therefore the CIC Board. It is not our position to comment further on this issue as this falls within the remit of the Liquidator and the report he will produce for the Government Insolvency Service.</p>
Decision of CIC Board to change External Auditors	<p>As the External Auditors provide key assurance to the Board it is appropriate for the Board to approve appointment.</p> <p>However, the change should require approval of the Authority. A function which could have been overseen by the dedicated "CIC oversight committee."</p>
Decision of CIC Board to change submission deadline for annual accounts to 31 December (financial year end retained end 31 March)	<p>This proposal made no sense as the CIC management were aware the Authority needed annual accounts by mid-May to enable Group Accounts to be prepared for 31 May deadline (for 2024/25 Authority accounts deadline).</p> <p>This proposal should have required full Authority approval, via delegation to the "CIC oversight Committee."</p>
<p>Decision to establish CFB Risk Management Group Limited</p> <p>This company was established on 14th February 2025</p>	<p>The CIC Board decided to explore this option as a way to potentially secure new contracts that would not be awarded to a CIC. A further options appraisals report was not presented to the Board, and the new entity was established by the Chair and Managing Director.</p> <p>As this was a significant issue the proposal to establish the additional entity should have required approval of the Authority.</p> <p>The Liquidator has confirmed the new company will be struck off following liquidation of the CIC.</p>

8. CONCLUSION

- 8.1 The Authority has robust arrangements in place which provide a robust and effective Governance system for managing the Authority and making decisions. These arrangements are subject to regular independent assessment by internal audit and external audit. The report identifies a number of minor improvements to these arrangements.
- 8.2 The report reviews the governance arrangements in place for the CIC. These arrangements were reliant on an annual report to a meeting of the Authority and the former Chief Fire Officer (who was also Chair of the CIC) determining if any additional reporting to the Authority was required. These arrangements were effective for the majority of the lifetime of the CIC when it was trading profitably. As the report highlights the Authority could potentially have acted early if the issues detailed in the lesson learnt section of the report had been identified earlier.
- 8.3 However, the CIC was set up as an independent entity and the governance and strategic decision making of the CIC was the sole and legal responsibility of the CIC Board – which was completely independent from the Authority.
- 8.4 The Authority original set up of the CIC ensures the Authority was financially protected from liquidation of the CIC, although it is recognised this has a negative reputational impact of the Authority.
- 8.5 The lessons learnt are to some extent academic as the Authority has no intention in the foreseeable future to establish a new CIC or other form of trading arm. However, these issues highlight the significant challenges of such arrangements and the need to focus officer capacity on managing the challenges the Authority faces over the next few years.

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