

PROTOCOL ON MEMBER REPRESENTATION ON OUTSIDE BODIES

1. Introduction – Two Categories of Organisation

1.1. As Members will be aware, the Council appoints or nominates Members to sit on a wide range of outside bodies and organisations. These appointments broadly fall into two categories:

(a) those where the Councillor is appointed to represent the views of this Authority and to speak on our behalf

e.g. West Midlands LGA
Joint Local Authority Committees

(b) those where he/she is appointed because they are a Councillor but once appointed, their duty is as a member of that outside organisation rather than as a representative of the Council

e.g. The Artrix

1.2 As a general rule, an appointment is likely fall into the second of the above categories if the organisation concerned is a distinct legal entity (i.e. if it can sue and be sued in its own name). Such an entity can take many forms e.g.

- Company
- Industrial & Provident Society
- Public Authority

This second category would also include charitable trusts

2. Category (a) – the Representative Role

2.1 Very little needs to be said about appointments to bodies within category (a). The Councillor is there to represent the views of the District Council, to speak up for the Council's interests, and those of the District as a whole.

2.2 As a general rule, it is unlikely that Councillors will be at risk of personal liability as a result of being appointed to any of the category (a) organisations. The nature of those organisations is not such as to be likely to give rise to additional liabilities.

2.3 However, Councillors should bear in mind to take care how they approach conflicts of interest and declarations of those interests, and if in doubt to seek guidance.

3. Category (b) – The Director/Trustee/Board Member role

3.1 It is the appointment of Councillors to positions within Category (b) organisations which potentially cause most difficulty. The most important point to bear in mind is that although the Council makes the initial nomination/appointment, after appointment the Councillor holds office according to the constitution of that other organisation. Appendix 1 sets out some further guidance notes for Members acting as Directors. In practice, various issues arise of which the following are the most common:

3.1.1 Period of appointment and removal

- a) Once appointed, the Council can only remove a person from office if the constitution of the particular organisation gives the Council that power. The situation differs from organisation to organisation and it is therefore necessary for the Councillor to check the particular constitution, (or articles of association of a company, etc) of the organisation concerned.

3.1.2 To whom is the Councillor Responsible?

- a) In the case of category (b) organisations, once a Councillor accepts an appointment as a director, board member, trustee etc of that organisation then they take on all the responsibilities of that position and their duty *when acting as a director or trustee etc* is to that organisation, not to the Council. They must act in accordance with what they consider to be the best interests of that organisation and are not there as a representative on behalf of the Council.
- b) It would, for example, be a breach of their duty to an outside organisation to disclose confidential information about that organisation to the Council, even if it were relevant to something that the Council was discussing. This point about confidentiality applies both ways and it would be equally wrong to disclose confidential information belonging to the Council to an outside body.
- c) The duty towards the outside organisation only applies when the Councillor is acting in their capacity as a director/trustee/board member of that organisation. When at Council meetings or acting in a Councillor role, he/she must act in the best interests of the Council (subject to the above point about confidentiality). It is therefore very important that Members have a clear understanding of “which hat they are wearing” at any time.
- d) It may often be the case that a Councillor has been appointed to an outside body because he/she has a particular interest in the subject matter e.g. housing. In those circumstances it would not be unusual if the Councillor’s own views and those of the particular organisation

were closely aligned. Alternatively, a Councillor may have gained particular knowledge about a subject because of their involvement on another body. It is perfectly proper that the Councillor should express those views/use that special knowledge during Council debates *because they are his/her own views*. However, a Councillor should never be seen to use their position on the Council to act as an advocate on behalf of an outside organisation during Council debates, because that would be putting the other organisations interests ahead of the Council's. This applies regardless of whether or not they were appointed by the Council.

.1.3 Conflicts of Interest

- a) Where a director, trustee or member of an outside body has a conflict of interest because they are also a Councillor, then that interest must always be disclosed at any meeting of that outside organisation (this also applies where the person has an interest because of their personal circumstances). Whether or not he/she should continue to participate in that meeting will depend on the rules of that organisation: as a general guide, if there are no rules or procedures specified then he/she should abide by the same rules as apply at Council meetings.
- b) Where a matter under discussion at a Council meeting concerns another local authority or an outside organisation to which a Councillor has been appointed as the Council's representative, the Council's Code of Conduct says that this does not have to be declared as a *Disclosable* interest unless a Member of the Public, knowing the circumstances, would reasonably regard membership of the body concerned as being likely to prejudice the Councillor's judgment of what is in the public interest.

However, there may be circumstances where the conflict of interest would be so great as to make it impossible for the person to act both as a Councillor and a member of the other organisation – for example, in the case of negotiations involving confidential information on both sides. In that situation the person should declare an interest and take no part in the matter in one or other forum i.e. decide whether to act as a Councillor or as a director/trustee in relation to the particular matter but not both. Equally, it could never be right for a Councillor to participate in the determination of a planning application made by an outside organisation of which s/he was a director or board member, even though nominated by the Council.

- c) This advice in relation to potential conflicts of interest applies to both category (a) and (b) organisations.

3.2 Personal Liability

3.2.1 A Councillor who accepts appointment to a Category b outside body takes on a responsibility to act in accordance with the particular obligations and requirements applicable to that type of organisation, and so should ensure that they are fully understood. The Council's Legal Section will provide general guidance on these matters, but the outside organisation itself (or their advisors) is likely to be better placed to advise on the specific issues concerning that organisation. Appendix A contains some notes exploring the rights, duties and responsibilities of company directors.

3.2.2 Assuming that Councillor nominees to outside organisations understand and comply with the relevant legal obligations applicable to that type of organisation, Councillors are unlikely to incur personal liability as a result of their appointment.

3.2.3 In order to guard against personal liability, Councillors should:

- Make sure they understand the obligations and responsibilities they have taken on (see above);
- Ensure that the organisation concerned is properly advised and managed;
- Ensure that the organisation has appropriate insurance cover, including Directors' Liability insurance;
- Make sure that the legal framework of the organisation is appropriate to the activities that it conducts e.g. it would be inadvisable for bare trustees to be undertaking significant trading activities;
- Be diligent – attend Board meetings and make sure they know what is happening, and do not assume that legal formalities are being attended to by other people.

3.3 Indemnity

3.3.1 The question is sometimes raised as to whether the Council should indemnify Councillors against any personal liability as a result of being appointed as a member of an outside organisation. Whilst it is theoretically possible to give an indemnity to Councillors who are acting on the Council's behalf, the law is not ideally clear and a blanket approach is not appropriate

- a) In the majority of instances, the Council's involvement ends once the nomination has been made. Although appointed by the Council, the Councillor is not acting as the Council's representative because the Councillor's responsibility is to act in the best interests of the Company rather than the Council.
- b) The Council cannot regulate how Councillors behave on outside bodies or what decisions are made by those bodies. Therefore the Council cannot accept responsibility for matters over which it has no control.

- c) There is still some uncertainty as to the extent of any indemnities which could be given. The Council could not, for example, indemnify Councillors against their own fraud or wilful misconduct. It could potentially cause greater problems and create a false sense of security to give indemnities which later proved to be invalid.
- d) In many instances the nature of the organisation's activities are low risk and an indemnity ought not to be necessary.
- e) Many of these issues are better addressed by the organisations themselves taking out appropriate insurance cover and ensuring they have proper management procedures in place.

Guidance Notes for Members acting as Directors of Outside Bodies

Duties

1. Members who are appointed as directors of outside bodies should note that when acting as a director, their prime duty is to that outside body. Members should therefore take careful note of which capacity they are acting in, at any given time.
2. A Director owes a fiduciary duty to the body to act honestly, in good faith, and in the best interests of the body as a whole. Directors are in the position of quasi-trustees who must take proper care of the assets of the body. The fiduciary duty of a director towards a body is very similar in nature to the fiduciary duty of a Councillor to Council Tax payers.
3. A Director owes a general duty of care and skill to the body, but no more than might reasonably be expected of someone of that person's particular knowledge and experience. A Director is not deemed to be an expert but is expected to use due diligence and to obtain expert advice if necessary.
4. In the same way as a Councillor in respect of Council decisions, a Director is under a duty to exercise independent judgment, although they may take account of third party interests which they represent. In such cases, a Director must disclose that position to the body and must strike a fine balance between the interests of the body and the interests of the third party (e.g. the Council). The Director cannot simply vote in accordance with a Council mandate since to do so would be a breach of duty.
5. The Director may encounter actual or potential situations where there is a conflict between the interests of the Council on the one hand, and those of the body on the other. In such circumstances the only proper manner to resolve the conflict is for the Member to resign from either the body or the Council.
6. Directors must not make a private profit from their position. They must disclose any interests they or their family have in relation to contracts entered into by the body. Whether they may vote on such matters will depend on the Articles or Constitution of that body.
7. Directors must ensure that they comply with the Companies Act in relation to keeping accounts, and making relevant returns to the Registrar of Companies. Failure to do so may incur fines and persistent default may lead to disqualification as a director.