

Derby City Council

**Annual Governance Statement 2015/16
(First Draft)**

July 2016

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Executive Summary

Each year, the Council is required to produce an Annual Governance Statement (AGS) that explains how it manages its corporate governance arrangements, makes decisions, manages its resources and promotes values and high standards of conduct and behaviour.

The Annual Governance Statement reports on:

- how the Council complies with its own governance arrangements;
- how the Council monitors the effectiveness of the governance arrangements;
- what improvements or changes in governance arrangements are proposed during the forthcoming year.

The 2013/14 AGS and the 2014/15 AGS had both identified significant governance failings. In June 2016, Grant Thornton, the Council's External Auditors for those financial years, published a Public Interest Report (PIR) detailing a number of governance failings at the Council, which centred on the management of a number of major projects and on Member conduct during 2013/14 and 2014/15. The Council has already taken a large number of improvement actions through a Governance Action Plan. Numerous changes have already been put in place, and a number are on-going in order to strengthen and enhance our governance framework. This framework is subject to a number of checks and balances to ensure continuous improvement.

Certification And Approval

We have recognised weaknesses in the previous governance framework highlighted in the 2013/14 AGS and 2014/15 AGS and have implemented corrective action. We have accepted all the recommendations made in the Public Interest Report and will strengthen our overall approach to Corporate Governance through the on-going actions.

Ranjit Banwait
Leader of the Council

Paul Robinson
Chief Executive/Head of Paid Service

Paul Hezelgrave
Chair of Audit & Accounts Committee
Officer

Janie Berry
Director of Governance & Monitoring

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2. Introduction and Background to the 2015/16 Annual Governance Statement

Regulation 6 (1) (b) of the Accounts and Audit Regulations 2015 requires that a relevant authority must each financial year prepare an annual governance statement (AGS)

The 2013/14 AGS and 2014/15 AGS outlined a number of concerns with the effectiveness of the Council's governance framework. The Council has recognised these problems and put together improvement actions in a Governance Action Plan to strengthen and enhance the governance framework.

Corporate Governance generally refers to the processes by which organisations are directed, controlled, led and held to account. The Council is committed to embedding and achieving a robust set of corporate governance arrangements. The Council is managed within arrangements set out in its Constitution. The Constitution outlines how the Council operates, how decisions are made and what procedures need to be followed to ensure it is efficient, transparent and accountable to its residents and stakeholders.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

3. The Council's Governance Framework

Derby City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website or can be obtained from the Council's Head of Governance and Assurance. This AGS demonstrates how the Council has complied with its Code.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is designed to identify and prioritise the risks to the achievement of the Council's objectives, to evaluate their likelihood and impact, and to manage them effectively.

The Council's assurance framework that was in place in 2014/15 is shown in the diagram on page 4.

Where do we need assurance?

Delivery of corporate priorities
Service performance and quality
Financial planning and performance
Partnership governance and effectiveness
Project management and delivery
Procurement processes
Management and engagement of our staff
Clarity of roles and responsibilities
Decision making protocols
Leadership effectiveness
Standards of conduct and ethics
Compliance with laws, regulations etc.
Effectiveness of the scrutiny function
Effectiveness of internal control
Effectiveness of safeguarding arrangements
Management of risks
Training and development of elected Members and staff
Staff engagement
Community engagement
Research
Openness and transparency

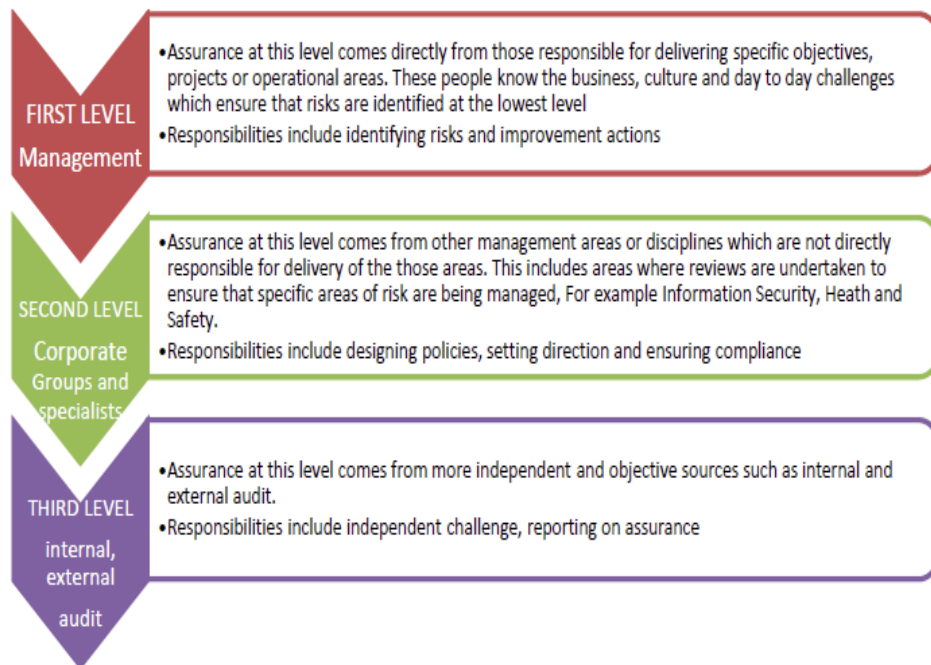
What do we have in place?

Derby Plan
Council Plan
Departmental Business Plans
Council Constitution, democratic arrangements, scheme of delegation for decision making
Audit & Accounts Committee and Standards Committee
Policy framework
Performance Frameworks (service and employee)
Effective financial management e.g. Annual Statement of Accounts, Medium-term Financial Plan, regular reporting of performance
Engagement mechanisms and Complaints processes
Partnership governance framework
Project management methodology
Corporate procurement strategy
Consultation Policy
OD Strategy, policies and procedures
Specific job roles for CEO, S151 Officer and Monitoring Officer
Member/officer protocols
Terms and conditions for remuneration
Pay and Reward Strategy
Officer and member Codes of Conduct
Registers of interest/hospitality
Anti-fraud and corruption policy and whistleblowing arrangements
Financial Procedure Rules & Contract procedure Rules
Staff and member training through a blended learning approach
Risk management framework
Corporate Safeguarding Board
Equalities framework
Core Values and behaviours
Effective systems, processes and controls
Electronic Policy management and E Learning system

What are our sources of assurance?

External auditor reviews and reports
Internal Audit reviews and reports
Internal audit planning linked to governance framework and risk
External reviews and inspectorate reports
Self-assessments
Peer reviews
Staff engagement
Benchmarking/VFM data
On-going review of governance
Partnership boards
Council's democratic arrangements e.g. scrutiny and 'audit' committees
Customer feedback
Community Engagement through:
 Reach-out Consultation Panel
 Statutory Surveys
 Service User Forums
 Diversity Forums
 Voices in Action Youth Council
 Neighbourhood Boards/Forums
 Streetpride Champions
 Your City, Your Say

Assurance can come from many sources within the Council. The Governance Working Group is responsible for mapping out where those assurances come from in order to identify any gaps. The Council uses the standard model of assurance within its governance framework, enabling it to understand how each contributes to the overall level of assurance and how best they can be integrated and mutually supportive. The key areas of assurance that underpin the governance framework are shown below:



Key Developments to the Governance Framework:

The 2014/15 AGS outlined the developments that were in progress or planned to enhance the Council's Governance framework. This development work has continued in 2015/16.

Governance Working Group:

In March 2015 the Governance Working Group was re-launched to focus on organisational weaknesses in governance and statutory compliance. As part of the improvement plan, the Group has:

- developed nine building blocks which form the underlying principles of the Council's governance approach
- used these building blocks to create a Project Plan which maps progress of identified priorities and outcomes set within each building block theme
- allocated responsibilities for progressing work within each building block theme, to a relevant service or Strategic Director
- reported issues and outcomes in relation to the Project Plan to Governance Working Board on a monthly basis.

Significant progress has been made on the actions in the improvement plan. Completed actions include...

- Review and update of the Risk Strategy.
- Risk management now a standing item on DMT agendas.
- Review of the Overview and Scrutiny Boards.
- Constitution updated following Senior Management restructuring.
- Updated and revised Financial procedure rules
- Review of Boards / Working Groups and publication of new terms of reference template.
- Published guidance on secure storage of physical records both in transit and at home.

New Management Structure:

A new management structure took effect from 1 September 2015. The 2015/16 budget setting process included a requirement by the Council's Cabinet to reduce the management structure (Tiers 1-3) to deliver at least £600k of annual savings. The new structure is based around a two Directorate model – “People Services” and “Communities & Place” with a third Directorate – “Organisation and Governance” being led by the Chief Executive.

Council Plan:

In March 2016 we launched a new Council Plan in support of our partnership vision of Derby 2030: safe, strong and ambitious.

Delivering Differently:

Over the next three years the Council has to deliver £45m of savings. In addition to delivering the budget savings already agreed, the Delivering Differently programme will support services to develop and implement new and innovative service delivery models with the aim of creating a modern, flexible and resilient Council.

Medium Term Financial Strategy – MTFS:

Council has agreed a Medium Term Financial Strategy - for the revenue and capital budget over the three year period 2016/17 to 2018/19. The MTFS sets out the Council's strategic approach to the management of its finances. It details the resource projections for the forthcoming three years, the financial challenges that the Council faces and the approach planned to meet the priorities set out in the Council Plan. It also comments on the significant risks facing the Council in the forthcoming years and explains what the Council is doing to reduce these risks. The purpose of the Medium Term Financial Strategy is to ensure that the overall vision, objectives and outcomes sought for the local community are affordable within the resources that are available or likely to be available in the medium term. The MTFS is also designed to ensure the Council continues to maintain a stable and sustainable budget capable of withstanding financial pressures. This position is becoming more difficult as funding continues to reduce at the same time as pressures are escalating.

Improving resilience in the Governance Department:

The Council recognised that a number of areas of weakness in the governance framework were due to insufficient resources and lack of resilience in key teams within the now Governance Department. The key services identified were Legal and Governance & Assurance.

Restructuring of the HR Department:

The Council's HR Department has, for some time, been subject to prolonged periods of instability and uncertainty. The Chief Executive has proactively supported the Department initially through interim arrangements for management and leadership, but with the medium to long term aim of delivering a fit for purpose service which anticipates and meets the Council's rapidly changing needs. What had become apparent was that the structure of HR did not serve the department or its customers well and consequently was not delivering value for money. A new structure is now being implemented that will facilitate and encourage forward thinking and offer resilience, whilst also being affordable, and able to support the Council to achieve its objectives and future business needs as it evolves.

Information Governance training

It was reported in the 2104/15 AGS that the Council had received notification from the Information Commissioner's Office (ICO) that it wanted to ensure that the Council had adequate procedures in place for dealing with FoI requests. The ICO had produced an action plan which identified their concerns and set out a range of steps for the council to take. One of the steps was that the Council would "ensure that all employees who deal with correspondence, or otherwise may be required to provide information, are familiar with the requirements of the FOIA, the EIR and associated Codes of Practice, and that appropriate training is provided". The Council has mandatory training in place for employees around information governance, but no FoI/EIR specific training. The Council procured FoI specialists from Geldards LLP to produce and deliver the training. The training was delivered to employees in September 2015.

Specific training around the roles of the Senior Information Risk Owner and the CaldicottGuardian were procured from Information Governance Specialists Dilys Jones Associates.

Inspections and Assessments

Over the past 12 months, the Council has undergone the following inspections:

- Adult Learning Service (January 2016 – outcome good)
- Youth Offending Service (June 2015 – no overall judgement)
- Review of health services for children looked after and safeguarding (including some services commissioned by the Council) – (July 2015 – no overall judgement)

In 2016/17 we are expecting several unannounced inspections of Children's services, including the Single Assessment Framework covering services for children in need of help and protection, looked after children and care leavers. The Director of People Services led an internal "Mocksted" assessment in April 2016 to support inspection readiness and improvement planning in this area.

We continue to participate fully in the Sector Led Improvement programme and undertake self assessment, benchmarking and peer review activity on a regular basis. No peer challenges were held in 2015/16 but a number are planned in 2016:

Adult social care (Preparing for Adulthood) – July 2016

LGA Pilot of Child Sexual Exploitation – July 2016

LGA Corporate Peer Challenge - September 2016

Children's Services (Special Educational Needs & Disabilities) – September 2016

The Corporate Peer Challenge will take place 5-8 September involving a peer team of 7 officers and members from other local authorities. The key lines of enquiry will focus on corporate governance and value for money.

As usual, improvement plans will be put in place following any peer challenge recommendations made.

Review of Effectiveness

Under normal circumstances the Governance Working Group would review the effectiveness of the Council's governance framework including the system of internal control on an on-going basis. Given the impact of the governance issues outlined in the 2013/14 AGS and the extensive overhaul of the governance framework, a full review of effectiveness is still impracticable. However, there are certain key elements of the governance framework that have been operating. These include:

- The responsibilities of the Head of the Paid Service for the Council rest with the Chief Executive. The Head of Paid Service is responsible for the overall corporate and operational management of the Council.
- Effective arrangements are in place for the discharge of the role of the Chief Finance Officer as defined under Section 151 of the Local Government Act 1972. This Officer has statutory responsibility for the proper planning, administration and monitoring of the Council's financial affairs. The Council's financial management arrangements also conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). This statement sets out 5 principles that define the core activities and behaviours that belong to the role of the chief financial officer and the governance requirements needed to support them. The financial management of the Council is conducted in accordance with the Financial Procedure Rules set out in the Council's constitution. The financial management system includes...
 - A Medium Term Financial Strategy, which is reviewed and updated annually, to support the delivery of the council's Strategic Priorities.
 - An annual budget cycle incorporating council approval for revenue and capital budgets, as well as treasury management strategies.
 - Financial Procedure Rules that are reviewed at intervals of not more than 3 years, with the latest review having been carried out during 2015/16.
 - Process and procedure guidance manuals.
 - Annual Accounts supporting stewardship responsibilities, which are subjected to external audit and which follow Code of Practice on Local Authority Accounting in the UK in line with International Financial Reporting Standards.
 - Regular budget monitoring by budget holders including monthly financial forecasting.
 - Reporting of the Council's financial position to COG and Members, stating financial and performance information.
 - Management of risk in key financial areas.

- Effective arrangements are in place for the discharge of the Monitoring Officer function. The Constitution covers the key statutory role of the Monitoring Officer; it also includes the requirement for the Council to ensure that the Monitoring Officer has access to sufficient skills and resources to deliver the role. The Monitoring Officer has confirmed that they have the skills and resources needed and continues to monitor this. There is a specific job description and person specification for the Director of Governance & Monitoring Officer which reflects the monitoring officer duties.
- The Council's internal audit coverage, which is planned using a risk based approach. The outcome from the internal audit coverage helps form the Head of Governance and Assurance's Audit Opinion on the overall adequacy of the Council's internal control framework, which is reported in their annual report. The Head of Governance and Assurance complies with the CIPFA Statement on the Role of the Head of Internal audit in Public Service Organisations (2010). The above statement contains 5 principles split into:
 - Governance requirements
 - Core Head of Internal Audit responsibilities
 - Personal skills and professional standards.
- The Council has set out the terms of reference for internal audit; these were reviewed in March 2014, by the Audit and Accounts Committee, and approved by Council on 11 June 2014.
- The council maintains and operates an Audit and Accounts Committee which is independent of the Executive (Cabinet). The work of the Audit and Accounts Committee includes reviewing the outcomes from the annual internal audit plan and the annual opinion report of the Head of Governance & Assurance. The Committee's terms of reference have been updated to take account of the new CIPFA guidance and the Committee operates to these.
- The Council has in place key internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; monitoring of policies, such as the customer feedback and health and safety policies; and the corporate budget challenge process.
- The Council has Scrutiny Commissions in place to provide "challenge" to the Cabinet.
- The Council's Constitution is reviewed and updated annually.
- The Council has established systems in place for receiving whistle blowing complaints and general service based complaints.

External review:

- The Council's External Auditor reports the findings of their interim audit work and the impact of their findings on the financial statements to Audit and Accounts Committee. They also review the work of the internal audit service and provide comment on corporate governance arrangement and performance management in their Annual Audit Letter and other reports.

Significant Governance Issues

Previous years

Progress continues to be made on significant governance issues raised in annual governance statements in previous years. Appendix 1 contains an update on progress made on those issues raised in the 2013/14 and 2014/15 statements.

2015/16

A number of the significant governance issues which occurred in 2015/16 were reflected in the 2014/15 AGS, as this was still a live document when these issues arose. They are not reported here. However, the following significant governance issues need reporting for 2015/16:

Grant Thornton – Report In The Public Interest

This report is issued in the public interest under section 8 of the Audit Commission Act 1998 (the 1998 Act). This section of the 1998 Act requires us to consider whether, in the public interest, we should make a report on any significant matter coming to our attention to bring it to the notice of the audited body and the public. We are making this report in the public interest because we have identified failures of governance at Derby City Council in the management of major projects and in relation to Member conduct; specifically in relation to:

- the implementation of Job Evaluation
- the delivery of the Webhelp project
- the operation of the Taxi Licensing function
- the implementation of the HRIS payroll project; and
- overall governance: Member and officer arrangements

Electoral Frauds

Issues of potential electoral fraud at the May 2016 Local Elections have been referred to Derbyshire Constabulary.

Asset Valuations

A whistleblowing allegation was made about the robustness of the methodology used for valuing assets within the Estates team as part of the annual accounts process.

Emerging issues – social media

An emerging area of concern is the number of cases where staff have breached the Council's Social Media Policy. All cases are investigated and appropriate action is taken.

Issues arising from Internal Audit reports:

The Head of Internal Audit (Head of Governance & Assurance) reports his Annual Audit Opinion to Audit and Accounts Committee Based on 2015/16 internal audit work he reached the overall opinion that "there is an acceptable level of internal control within the Council's systems and procedures". This opinion had regard to the following:

- The level of coverage provided by Internal Audit was considered minimal. Please note, the Council's Chief Executive has procured additional audit coverage from CMAP for 2016-17.
- No reports provided a 'Limited' control assurance rating, all areas examined were judged to be either 'Comprehensive' or 'Reasonable'.
- There were no 'critical risk' recommendations made and only 3 recommendation attracted a 'significant risk' rating within any audit reports issued in 2015-16.
- There were no adverse implications for the Authority's Annual Governance Statement arising from any of the planned work that Internal Audit has undertaken in 2015-16.
- We have commenced 3 investigations during 2015-16, but none have identified significant weaknesses in the Council's governance and risk management arrangements.
- The Monitoring Officer continues to demonstrate an effective level of challenge to the Council's decision making processes which has ensured the activities of the Council have been lawful.
- All of the issues raised within the internal audit reports have been accepted.

Appendix 1

Governance Issues – Update on outstanding issues from previous years:

Governance Issues	Progress made/Comments
Issues from 2013/14	
Governance	
To review the Council's Governance framework	The Governance Working Group continues to address actions within the Governance Improvement Plan. The Plan is reviewed at each meeting of the Group and new actions are added as appropriate. The areas highlighted in the 13/14 AGS have been confirmed in the Public Interest Report, which acknowledges the Council's transparent reporting regime.
Information Governance	
Review the evidence in support of the 40 requirements of the IG Toolkit	The Council needs to achieve Level 2 compliance across all 28 requirements of the NHS IG Toolkit to be given a satisfactory rating. 100% compliance relates to all the requirements being achieved at Level 3. In 2014/15, the Council achieved 39% compliance with the NHS IG Toolkit. It had reached Level 2 or more in 12 areas. An improvement plan was produced to monitor the actions required to attain Level 2 in all 28 areas. In 2015/16 a 55% compliance was achieved, with 20 of the 28 areas being at Level 2 or above. Work is on-going to achieve Level 2
Identify areas of non-compliance with Level 2 and produce improvement plan.	
Job Evaluation	
To complete the job evaluation process including the process for non-teaching staff at the Council's schools.	Implemented 1 June 2016.
Risk Management	
Re-constitute the Strategic Risk Group	The Strategic Risk Group was re-constituted. However, given that Risk Management was

Governance Issues	Progress made/Comments
	identified as one of the building blocks within the improvements to the Council's governance framework, the decision was taken to transfer the role of the SRG to the Governance Working Group.
To review the current risk management framework	The Council's Risk Management Handbook has been reviewed and revised.
Payroll	
Full implementation of the recommendations made in the Internal audit report.	All of the recommendations from the 2011/12, 2012/13 and 2013/14 audits have been implemented.
Report outlining the problems/issues arising from the internal audit work to be presented to Audit and Accounts committee for scrutiny.	Audit and Accounts Committee has been kept fully up to date on the issues and the improvements that were implemented to prevent a repeat of such problems.
Issues From 2014/15	
Freedom of Information - ICO monitoring	
To ensure all Fols are responded to in the statutory timeframe	The Council was monitored over a 6 month monitoring period by the Information Commissioner's Office. The Council was required to submit a monthly return to the ICO covering the Fols received and responded to for the period 1 March 2015 to 31 August 2015. In all the monthly returns, the statutory timeframe was not exceeded.
To provide training for staff on Fol legislation and processes.	The Council procured tailored training from Fol experts at Geldards solicitors for key staff which was delivered in September 2015.
Audit Certificate	
To meet the requirements of External Audit	Release of the audit certificates for 2013/14 and 2014/15 is dependent upon Grant Thornton..

Action Plan – Significant Governance Issues 2015/16

Action(s)	Responsible Officer	Timescale	Progress to date	Impact and measures
Grant Thornton				
To produce an improvement plan to cover the recommendations made in the Public Interest Report	Director of Governance & Monitoring Officer	July 2016	Full council meeting	

Summary of the Code of Corporate Governance

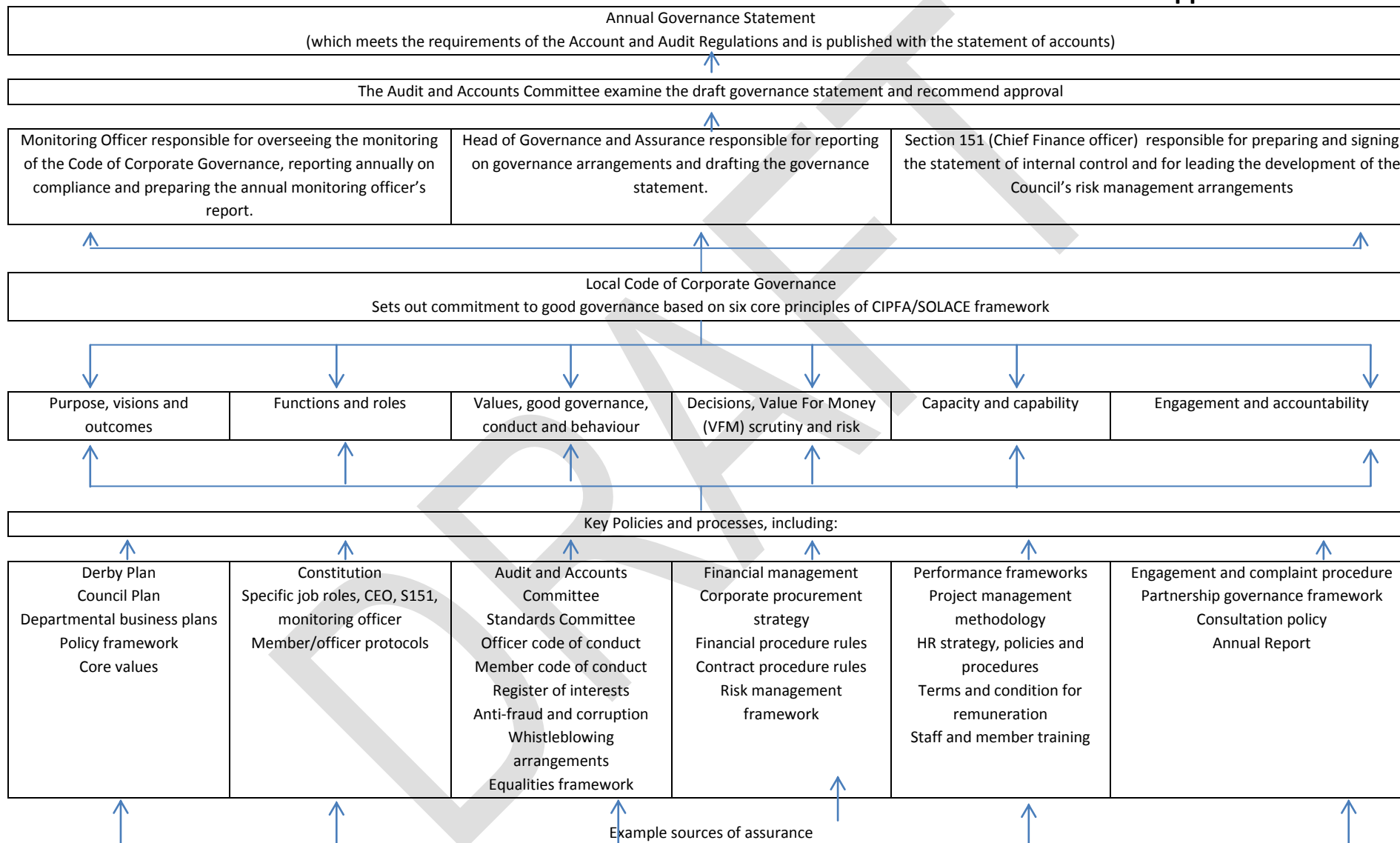
Appendix 3

1 Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area	2 Members and officers working together to achieve a common purpose with clearly defined functions and roles	3 Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour	4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	5 Developing the capacity and capability of members and officers to be effective	6 Engaging with local people and other stakeholders to ensure robust public accountability
Exercising strategic leadership by clearly communicating the authority's purpose and vision and its intended outcome for citizens and users	Ensuring effective leadership throughout the authority by being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function	Ensuring council Members and officers exercise leadership by behaving in ways that uphold high standards of conduct and exemplify effective governance	Exercising leadership by being rigorous and transparent about how decision are taken and listening and acting upon the outcome of constructive scrutiny	Making sure that Members and officers have the skills, knowledge, experience and resources they need to perform well in their roles	Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountable relationships
Ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning	Ensuring that a constructive working relationship exists between elected Members and officers and that the responsibilities of Members and officers are carried out to a high standard	Ensuring that organisational values are put into practice and are effective	Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/ needs	Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group	Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery
Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.	Ensuring relationships between the authority and the public are clear so that each know what to expect of each other		Making sure that an effective risk management system is in place	Encouraging new talent for membership of the authority so that best use can be made of resources in balancing continuity and renewal	Making best use of human resources by taking an active and planned approach to meet responsibility to staff.

			Recognising the limits of lawful action and observing both the specific requirements of legislation and the general responsibilities placed on local authorities by public law, but also accepting responsibility to sue their legal powers to the full benefit of the citizens and communities in their area.		
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Framework for the Annual Governance Statement

Appendix 4



Your Derby Local Area Agreement Neighbourhood forums	Scheme of Delegations	Annual Internal Audit opinion External Audit reviews and reports Internal audit plan	Risk Register Risk Manual	Induction programme E-Learning packages Staff surveys	Annual scrutiny report Annual Report Community engagement
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