# The Draft Annual Governance Statement 2011-12

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## SUMMARY

1.  An update on preparing the Annual Governance Statement (AGS) was last reported to the Committee on 15 March 2012. Steady progress has been made to deliver the key components feeding into the draft AGS, which has included updating the evidence map and collecting cross-council assurance statements. Currently, the Council is on schedule to publish the AGS alongside the Statement of Accounts in September 2012.

2.  On the 6 April all Group Directors and Heads of Service submitted assurance statements. Internal Audit conducted a detailed review of all submissions and supporting evidence, and concluded that the Council has an effective internal control and governance system in place. The assurance gathering and review process has highlighted a number of governance issues that have currently been reported in the draft AGS. These are outlined in section 5 of the attached draft (Annex A).

3.  A full draft 2011-12 AGS is attached for comment. This follows the CIPFA/SOLACE guidance framework and is based on evidence from the mapping exercise, the review of assurance statements and responses on internal control issues from the 2010-11 AGS.

## REASON FOR REPORT

4.  This briefing provides the Audit Committee with a progress update and presents a draft 2011-12 AGS for comment.

## RECOMMENDATION

5.  Members are invited to review the draft 2011-12 AGS and offer comments on its content.

**DRAFT**

# London Borough of Hillingdon
# Annual Governance Statement 2011-12

## 1. Scope of Responsibility

The London Borough of Hillingdon is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Hillingdon also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Hillingdon is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.

The London Borough of Hillingdon is following a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government'*. This statement explains how the authority has complied with the code and also meets the requirements of Regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of an Annual Governance Statement.

## 2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hillingdon's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the London Borough of Hillingdon for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts.

## 3. The Governance Framework

The London Borough of Hillingdon has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined below demonstrate how Hillingdon maintains effective internal controls and an effective governance system.

3.1. **The London Borough of Hillingdon's Constitution**, which sets out how the authority operates, how decisions are made, and the procedures that are followed to ensure that they are efficient, transparent and accountable to local people. The constitution is regularly reviewed at full Council meetings and also more comprehensively on an annual basis at each AGM.

3.2. Part 2 of the constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. There is a new ethical framework for members, introduced by the Localism Act 2011, which will come into force on 1 July 2012. The governance arrangements for Hillingdon comprise:

- A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny committees
- A Corporate Management Team
- An Operational Management Group
- Senior Management Teams
- The Audit Committee, led by an independent chairman
- Standards Committee, led by an independent chairman *(Note: these arrangements will change from 1 July 2012)*

3.3. Part 2, article 7 of the Constitution sets out the **'Cabinet Scheme of Delegations'**. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Director's responsibilities.

3.4. Part 3 of the Constitution sets out the **'Scheme of Delegations to Officers'**. This governs the responsibility allocated to officers of the London Borough of Hillingdon to perform the authority's activities on behalf of the executive. This is regularly updated to reflect the changes to Director's responsibilities in line with business priorities.

3.5. Part 5 of the Constitution sets out a formal **'Code of Conduct'** governing the behaviour and actions of all elected Council members. The code ensures that councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is also a separate Officers Code, which applies to all employees and is part of their contract of employment. The authority has reviewed the code and updated guidance to ensure these requirements reflect the new Council structure. The Council has also reviewed the 'Code of Conduct' in light of the Localism Act 2011.

3.6. **A members training programme** throughout each municipal year embeds high standards of conduct and behaviour. Complaints against members of the Council are handled by the Monitoring Officer and Standards Committee in accordance with the requirements of the Local Government and Public Involvement in Health Act 2007, the Standards Committee (in England) Regulations 2008 and guidance issued by the Standards Board for England *(note: these arrangements will change from 1 July 2012)*. The Council has put in place a comprehensive induction and training programme for elected councillors along with specific training on risk, scrutiny, planning and licensing rules. This includes a personal development tool-kit and knowledge library.

3.7. **A Code of Corporate Governance** sets out the London Borough of Hillingdon's governance structure, decision making process and areas of responsibility. Originally adopted in 2002, the code reflects the authority's governance structure and corporate responsibilities, and is founded on the fundamental principles of openness, integrity and accountability and sets out the policies, systems and procedures in place to achieve this.

3.8. **A Members 'Register of Interests'** records the interests of elected members of the London Borough of Hillingdon. There is a separate 'Related Parties' register that members and senior

officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.

3.9. **A Member / Officer Protocol** to govern and regulate the relationship between the London Borough of Hillingdon's elected members and appointed officers. This has been developed in consultation with the political leadership, all Council members and officers.

3.10. **A formal whistle-blowing policy**, which is based on the Public Interest Disclosure Act 1998. The policy allows Council staff and contractors working for the authority to raise complaints regarding any behaviour or activity within the authority, ranging from unlawful conduct to possible fraud or corruption. The Monitoring Officer has overall responsibility for maintaining and operating the policy, along with reporting on outcomes to the Standards Committee.

3.11. **The London Borough of Hillingdon** has set out its vision of 'Putting Our Residents First' and established four priority themes for delivering efficient, effective and value for money services. The priority themes are; 'Our People, 'Our Natural Environment', 'Our Built Environment' and 'Financial Management'. The delivery of these priorities will be achieved through a combination of strategic management programmes, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and the financial and service planning process (Medium Term Financial Forecast).

3.12. **The Hillingdon Improvement Programme (HIP)** is Hillingdon's council-wide improvement programme which aims to deliver excellence as set out in the Council vision – 'Putting Our Residents First'. The HIP Vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. HIP has helped to change the culture of the organisation and to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from customer care, waste and recycling services, libraries, our primary and secondary schools and how well our residents feel informed, through regular feedback. HIP is consistently trying to improve Hillingdon by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance Hillingdon's reputation. The programme is led by the Leader of the Council, and the Deputy Chief Executive and Corporate Director for Central Services is the programme director. Cabinet members and directors are also responsible for specific parts of HIP.

3.13. **The Business Improvement Delivery (BID)** programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates and deliver the Council's savings targets of £26.2 million for 2011-12 and more than £69 million over the Comprehensive Spending Review four year period. The BID programme delivery and expenditure is overseen by the Leader of the Council, and the Deputy Chief Executive and Corporate Director of Planning, Environment, Education & Community Services.

3.14. **The Medium Term Financial Forecast (MTFF)** process is the system of service, financial and annual budget planning. This runs from the preceding spring to February with a robust challenge process involving members, Corporate Directors and the Chief Finance and S151 Officer. Monthly reports on key financial health indicators are produced and communicated through the finance management team.

3.15. The **Sustainable Community Strategy (SCS)** sets out the Local Strategic Partnership aims and ambitions for the London Borough of Hillingdon over the next 10 years. The Local Strategic Partnership (Hillingdon Partners) has overall responsibility for the Sustainable Community Strategy, the priorities have been reviewed and updated to reflect the changing circumstances of the borough.

3.16. **Hillingdon Partners** reviewed its structure and governance arrangements following the abolition of the Comprehensive Area Assessment and the Local Area Agreement. The review agreed to

focus partnership work around key priorities, and streamline delivery theme groups and arrangements for reporting partnership performance and risk.

3.17. **A Joint Strategic Needs Assessment** (JSNA) outlines the current and future health and wellbeing needs of the population over the short-term (three to five years) and informs service planning, commissioning strategies and links to strategic plans such as the Sustainable Community Strategy. Following a redesign of the JSNA in 2011, further work has been undertaken to refresh the content in 2012 to reflect changes in regional and local data and to ensure it functions as a flexible and comprehensive needs assessment. The JSNA is 'live' and can be accessed via the Council's website and as such can be updated throughout the year rather than refreshed annually.

3.18. **An independent Audit Committee** operates to oversee the financial reporting, provide an independent scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference consistent with CIPFA's *'Audit Committees – Practical Guidance for Local Authorities 2005'.*

3.19. **The Performance Management Framework** is a Council-wide framework requiring service areas and teams to set annual team plans, targets, identify risk and report performance against Council priorities and SCS priorities. Performance is monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.

3.20. The London Borough of Hillingdon has established an effective **risk management system**, including:

- **A corporate risk management framework** outlining the, roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. Team, directorate and corporate risk registers enable the identification, quantification and treatment of risks against the Council's objectives. Group risk registers are regularly updated, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register. The framework is reviewed annually.

- **A Corporate Risk Management Group** (CRMG) reviews the risk registers on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. Twice annually, the risk reporting arrangements are reviewed and updated, if appropriate, by the Audit Committee. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks.

- **Risk management training** is provided when required. An e-learning training package is in place and accessible for all staff and is included in the induction programme.

3.21. The London Borough of Hillingdon has **an Anti-Fraud and Corruption Strategy** approved by members and communicated to all staff. It is underpinned by and refers to the full range of policies and procedures supporting corporate governance arrangements such as Codes of Conduct, Standing Orders, Register of interests and whistle-blowing.

3.22. **The Committee Standing Orders** (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually. The Scheme of Delegation specific to each directorate is available on the Hillingdon's internal web pages. In 2010-11 these schemes were reviewed and updated to account for changes to the Council structure and roles and responsibilities of Corporate Directors.

3.23. The London Borough of Hillingdon operates a system to **monitor legislative changes** and ensure that the authority is fully compliant with laws and regulations. During 2011-12 the Council has undertaken a project to prepare for the implementation of the Localism Act 2011 by designing and establishing new mechanisms and procedures to meet the provisions.

3.24. **Hillingdon's training and development programme** enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon' to ensure they have the skills, knowledge & behaviours to deliver the councils priorities. This includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework. In addition, the Hillingdon Academy is now well established as a leadership programme aimed at providing the Council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.

3.25. The **Performance and Development Appraisal (PADA)** process, completed by all officers and senior managers, records employee's key objectives and tasks, sets targets for when these must be delivered and identifies staff learning and development needs. There are competency frameworks for staff, managers, senior officers and Directors, with descriptors outlining the performance that is expected at each level. Performance reviews are completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support both staff and managers through the process.

3.26. Hillingdon has a set of **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out Hillingdon's commitment to engage, consult and respond to the views of local communities. The standards also support Hillingdon's commitment to transparency and the need for sharing information with residents. Resident and stakeholder feedback supports and informs corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. An annual customer engagement plan is in place covering all Council services to align customer engagement to support the delivery of Council priorities

3.27. **Hillingdon's Pride of Place** initiative encourages residents to contribute their ideas on neighbourhood improvements so that they can feel PROUD to live in Hillingdon. The aim is to raise civic pride by showing how residents can make a real difference and contribute directly to a range of activities and specific projects to improve their local area. The initiative brings together other successful programmes such as 'Street Champions' and 'Chrysalis', and gives residents the opportunity to meet informally with their ward councillors and discuss improvements directly with Council officers through a variety of community engagement events across the borough.

3.28. The Council has in place a well-established **Petition Scheme**, including e-Petitions. This is widely used by people in the borough to submit their views on local matters directly to decision-makers.

## 4. Review of Effectiveness

The London Borough of Hillingdon has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Overall the review of effectiveness concluded that internal control systems have been in place for the financial year ended 31 March 2012 and, except for the internal control issues detailed in section 5, management and control systems are operating effectively in accordance with good practice.

The review has been informed by a range of management information and improvement action, including:

4.1. A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees and the Audit Committee.

4.2. The role and responsibilities of the Chief Finance & S151 Officer, detailed in the Code of Corporate Governance, as a key member of the leadership team actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.

4.3. The work of the external auditors as reported in their annual audit letter.

4.4. The work of Internal Audit service, which develops its annual work plan after an assessment of risk. The Head of Audit and Enforcement reported regularly during the year to both the Corporate Management Team and the Audit Committee and has provided a satisfactory level of assurance on the internal control environment in 2011-12.

4.5. Internal control assurance statements were received from all Service Directors and Heads of Service covering the financial year 2010-11. Statements provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that any significant control issues have been raised and are being dealt with appropriately.

4.6. The London Borough of Hillingdon has continued to maintain effective financial management throughout the financial year, with unallocated reserves increasing to £23.313m million as at 31 March 2012.

4.7. The London Borough of Hillingdon has a clear commitment to a capable and fit for purpose procurement function. Working through a co-located business partner model, Procurement ensures a best value approach to expenditure commitment. By engaging with Directorates, Procurement supports the delivery of financial and service level requirements to meet the wider corporate objectives with a 'Resident First' approach. Progress and performance of Procurement delivery is regularly reviewed with Directorate Senior Management Teams and the Corporate Management Team. Processes and procedures are regulated through revised Procurement & Contract Standing Orders enabling the appropriate oversight of decisions.

4.8. Implementation of performance measures ensures that each area achieves its targets in service delivery, financial control, and good governance.

4.9. Throughout 2011-12 the London Borough of Hillingdon has made substantial progress to implement new procedures and protocols and strengthen existing governance arrangements. This includes:

- A review and refresh of the Council's Constitution
- Updating scheme of delegations for each directorate

## 5. Significant Governance Issues

The London Borough of Hillingdon has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. All internal control issues reported in the 2010-11 AGS have been resolved, except that:

- The water management strategy has not yet been implemented as the benefits of investing considerable time and effort in water are not there in terms of savings when compared to the other areas of our energy spend.

- Historic weaknesses were identified in the monitoring and control of some construction projects. Some weaknesses have been addressed. Work is continuing to ensure that all processes and procedures are robust.

Following a review of the effectiveness of the system of internal control the following governance issues have been identified in 2011-12:

- An investigation into an attempted fraud found that payment system procedure controls were in place but not consistently applied. The procedure has been reviewed, re-written and validated by Internal Audit. A formal validation of the procedures has been carried out as part of a full audit.

- Investigations highlighted a lack of transparency in the historic financial reporting on some housing construction projects. Corporate finance comments are now being added to Cabinet Member reports to improve control. In addition there is ongoing work in the area of housing supply and it is likely that other substantial changes in processes and procedures will be needed in the coming year.

- Following a recent data protection issue, it was recognised that data protection policies need to be refreshed and disseminated to staff. This is being addressed via a corporate programme of actions under the auspices of the Hillingdon Information Assurance Group (HIAG) chaired by the Deputy Chief Executive and Director for Corporate Services.

- Non compliance issues were raised relating to providing alternative education for those children not in school (Section 19 Education Act 1996). This has been addressed through a review of the Fair Access Protocol and through provision of alternative education which involves other services areas. There have been improvements and the process and protocol will be monitored on a regular basis.

- As part of the ongoing changes to the organisation as part of the BID process, there is a need to constantly review and update policies and procedures to take account of the change in roles and responsibilities.

The London Borough of Hillingdon will, over the coming year, take steps to address the above matters to further enhance our governance arrangements. The authority is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.


Hugh Dunnachie
Chief Executive                                        XX September 2012



Cllr Ray Puddifoot
Leader of the Council                                  XX September 2012