

The Draft Annual Governance Statement 2010-11

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SUMMARY

1. An update on preparing the Annual Governance Statement (AGS) was last reported to the Committee on 10th March 2011. Steady progress has been made to deliver the key components feeding into the draft AGS, which include the 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 2011.
2. On the 1st 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 2010-11 AGS is attached for consideration and 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 2009-10 AGS.

REASON FOR REPORT

4. This briefing provides the Audit Committee with a progress update and presents a draft 2010-11 AGS for comment.

RECOMMENDATION

5. Members are invited to review the draft 2010-11 AGS and offer comments on its content.

London Borough of Hillingdon

Annual Governance Statement 2010-11

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 includes 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 2011 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. 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
- 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. During 2010-11, the constitution was updated to reflect changes to Cabinet Member appointments, portfolio responsibilities and delegations to the Leader; allowing the decision-making process in Hillingdon to be more responsive to the needs and priorities of residents'. New delegations also provide for better financial control in the current economic climate, in particular around the use of consultants, agency and temporary workers, and contracts.
- 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. In 2010-11 the scheme of delegations was updated to reflect changes to the Council's new operating structure, which was implemented as part of the Business Improvement Delivery (BID) transformation programme.
- 3.5. Part 5 of the Constitution sets out a formal '**Code of Conduct**' governing the behaviour and actions of all elected council members. Based on national guidelines, 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. Going forward the Council will review the 'Code of Conduct' in light of the Localism Bill.
- 3.6. **A members training programme** has been implemented to embed high standards of conduct and behaviour. All 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. 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.

- 3.7. **A Code of Corporate Governance** setting out the London Borough of Hillingdon's governance structure, decision making process and areas of responsibility. Originally adopted in 2002, the code has been updated to accurately reflect the authority's governance structure and corporate responsibilities. The revised code 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'** that 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 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 tools, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and Medium Term Financial Forecast process of service and annual budget planning.
- 3.12. **The Hillingdon Improvement Programme (HIP)** is the council-wide transformational programme delivering a range of performance, organisational, culture and process improvements. 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 £60 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) 2008-2018** sets out the Local Strategic Partnership aims and ambitions for the London Borough of Hillingdon over the next 10 years. The Local Strategic Partnership (LSP) 'Hillingdon Partners' and its theme groups have overall responsibility for delivering the commitments made in the Sustainable Community Strategy. The partnership is currently in the process of reviewing and updating the SCS to ensure it continues to reflect the changing circumstances of the borough.
- 3.16. Hillingdon Partners has undertaken a review of its structure and governance arrangements following Government action removing the requirements for authorities' to complete a Comprehensive Area Assessment (CAA) and deliver against Local Area Agreement (LAA) targets. The review agreed a list of 10 streamlined partnership priorities, new responsibilities for delivery theme groups and arrangements for reporting partnership performance and risk.
- 3.17. **A Joint Strategic Needs Assessment (JSNA)** that outlines the current and future health and wellbeing needs of the population over the short-term (three to five year) and informs service planning and commissioning strategies. The JSNA was refreshed and redesigned in 2011 to reflect changes in national, regional and local data, and to be a more flexible and comprehensive needs assessment. The refreshed JSNA is 'live' and can be accessed via the London Borough of Hillingdon website and as such can be updated throughout the year rather than refreshed annually.
- 3.18. **An independent Audit Committee** that 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 used to capture and report performance against Council priorities and SCS priorities. Performance is monitored on a regular basis via Senior Management Teams and reported quarterly to the Corporate Management Team.
- 3.20. **A Data Quality Strategy** is in place to establish a consistent standard across the authority and provides officers with a good basis on the issues surrounding data quality and its importance. The strategy refers to the Data Quality Partnership Protocol to further embed data quality across the LSP.
- 3.21. The London Borough of Hillingdon has established effective **risk management systems**, including:
- **A corporate risk management strategy** outlining the risk framework, roles, responsibilities and processes for capturing and reporting key corporate risks.

Team, service and corporate risk registers enable the identification, quantification and treatment of risks against the authority'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.

- **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.
- **A programme of risk management training for both council members and officers** to ensure the consistent practice of identifying and escalating risk.

3.22. 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.

3.23. **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.

3.24. The London Borough of Hillingdon operates a system to monitor legislative changes and ensure that the authority is fully compliant with laws and regulations.

3.25. The London Borough of Hillingdon operates a training and development programme for elected members and senior officers. This is as follows:

- **A Member Development Service** that supports Councillors to access a range of training and development information, which includes a personal development toolkit and a knowledge library. The toolkit supports personal development of each Member and suggests competencies which will help Members identify their learning and development needs and if a need is identified the appropriate training is then organised. The service also covers the roles and responsibilities of elected members and guidance on standards and ethics.
- Officers and senior managers are able to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon'. This includes induction programmes, e-learning packages, NVQ qualifications and a range of other staff development courses. In addition, the Council offers Institute of Leadership and Management (ILM) accredited management awards and has established the Hillingdon Academy to develop the council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.

- The **Performance and Development Appraisal (PADA)** process is completed by all officers and senior managers. This 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. **The Consultation Strategy** established the London Borough of Hillingdon's approach for building a strong relationship with residents, visitors and business throughout the borough. The strategy sets out the commitment to engage, consult and respond to the views and priorities of all communities. At the highest level, the strategy supports and informs corporate intelligence and policy, and decision making including commissioning and procurement of services.

3.27. **The 'Pride of Place' initiative** has been established to enable residents to get involved in community activities that are focused on making the borough cleaner, greener and safer for everyone. The initiative brings together the successful 'Street Champions' and Chrysalis programmes along with opportunities to attend full Council meetings and Council 'Question Time' events. The Council also conducts an Annual Resident's Survey to ask residents for their views on key services.

3.28. In November 2010 the Council adopted a Single Petition Scheme to incorporate new rules regarding local authorities hearing public petitions and support the Council's existing and well established petition procedures.

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 2011 and, except for the internal control issues detailed in section 5, management and control systems are operating effectively in accordance with good practice.

This review took into consideration the arm's length management organisation, Hillingdon Homes Ltd, which reported no significant control issues during the time period 5 April to 30 September 2010. On the 1 October 2010 the process of transferring the control of housing management back to the authority was completed successfully.

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 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 2010-11.
- 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 £17.022m million as at 31 March 2011.
- 4.7. The London Borough of Hillingdon has a clear commitment to a capable, fit for purpose and sustainable procurement function. Procurement, working through a co-located business partner model supporting the three Directorates of the Council, lead delivery of Procurement objectives. These objectives support the delivery of individual Directorate financial objectives and ultimately the Council's. Progress and performance of Procurement delivery is regularly reviewed with Directorate Senior Management Teams and the Corporate Management Team as appropriate.
- 4.8. The work of managers is vital, particularly through their implementation of performance management to ensure that each area achieves its targets in service delivery, financial control, and good governance.
- 4.9. Throughout 2010-11 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
 - A review of the whistle-blowing policy

5. Significant Governance Issues

The London Borough of Hillingdon has implemented a range of improvement actions to strengthen governance arrangements and control systems. All internal control issues reported in the 2009-10 AGS have been resolved, except that:

- Further work is required to fully implement a water management strategy. A tender process has been undertaken to appoint a contractor to measure the Council's water usage. Once measurement figures are obtained a strategy to reduce water usage will be put in place from October 2011.

Following a review of the effectiveness of the system of internal control the following governance issues have been identified in 2010-11:

- In October 2010 the Council replaced the differing methods of income collection / invoicing of third parties with a single approach which included automatic interfaces between Oracle and the Capita AIM system. Although there were initial issues with reconciliations these are now largely resolved. As part of normal post implementation review, Capita have been engaged to review the many interfaces to resolve these outstanding issues and make recommendations that will further automate processing.
- The Electronic Care Management system monitors home care visits. Discussions are ongoing with some suppliers whose utilisation rate of the system is below the agreed tolerance.
- Some manager assurances have drawn attention to the fact that in a number of areas procedures need to be updated to take account of the changes in roles and responsibilities brought about by the BID process.

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

Signature..... Date.....

CLlr Ray Puddifoot
Leader of the Council

Signature..... Date.....