

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **18.07.11**

Originating Service Group(s)

CORPORATE SERVICES (DELIVERY)

Contact Officer(s)/

PAT MAIN **BRIAN BURGESS** **JOANNE LANCASTER**

Telephone Number(s)

4410

4460

4003

DAVID JOHNSTON

SUE KEMBREY

4565

4590

Title

ANNUAL GOVERNANCE STATEMENT 2010/2011

SUMMARY

That the Committee consider and note the signed version of the Annual Governance Statement for 2010/11 as attached at Appendix 1.

1. **PURPOSE**

- 1.1 The Committee are asked to note and comment on the Annual Governance Statement at Appendix 1.

2. **BACKGROUND**

- 2.1 The Council is required under Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulation 2006 to produce an Annual Governance Statement to be included in the annual statement of accounts, which must be signed by the Leader of the Council and the Chief Executive.
- 2.2. The Annual Governance Statement draws upon the management and internal control framework of the Council, especially the work of internal and external audit and the Council's risk management arrangements. In compiling the Annual Governance Statement assurance is obtained from a range of sources in order that the signatories to the Statement can assure themselves that the statement reflects the governance arrangements for which they are responsible.
- 2.3. The Annual Governance Statement is a key corporate document that is overseen and approved by the Strategic Executive Board and owned by all senior officers and Members. The Council has a Corporate Governance Officer Group with responsibility for preparing the Annual Governance Statement. The group comprises:
- Assistant Director – Corporate Services (Section 151 Officer)
 - Assistant Chief Executive
 - Assistant Director - Governance (Monitoring Officer)
 - Head of Internal Audit
 - Head of Risk and Insurance
- 2.4. The Annual Governance Statement provides coverage of the following information:
- Scope of Responsibility
 - The purpose of the governance framework
 - A description of the governance framework and the key elements of the systems and processes that comprise the authority's governance arrangements.
 - Review of effectiveness.
 - Significant governance issues.

3. **FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications with regard to the Annual Governance Statement, however, financial issues or matters are reported within the Statement.

[[PM/23062011/J]

4. **LEGAL IMPLICATIONS**

- 4.1 The Legal Implications and the need for this report are contained in paragraph 2.1 above.

[[MW/24062011/H]

5. EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no specific equal opportunity implications, however, the Annual Governance Statement describes the framework that underpins the arrangements for ensuring that these obligations are dealt with appropriately.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no specific environmental implications, however, the Annual Governance Statement describes the framework that underpins the arrangements for ensuring that these obligations are dealt with appropriately.

7. SCHEDULE OF BACKGROUND PAPERS

Officer working papers and Governance Group meeting notes

ANNUAL GOVERNANCE STATEMENT 2010/2011

1. Scope of Responsibility

- 1.1 Wolverhampton City Council 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.
- 1.2 The Council 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 Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The Local Code of Corporate Governance is incorporated within Part 5 of the Council's Constitution, which is available for review on the Council's website.
- 1.4 Copies of the Local Code of Corporate Governance can be obtained from the Monitoring Officer or Chief Financial Officer. This statement explains how the Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the publication of an annual governance statement.
- 1.5 The authority is also responsible for the strategic management and administration of the West Midlands Authorities Pension Fund.

2. The Purpose of the Governance Framework

- 2.1 Good governance is about running things properly. It is the means by which a public authority shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing public money is well spent. Without good governance councils will struggle to improve services when they perform poorly.
- 2.2 The system of internal control is a significant part of the 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 Council's and Pension Fund'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.
- 2.3 The governance framework has been in place at Wolverhampton City Council for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

3 The Governance Framework

- 3.1 The key elements of the systems and processes which comprise the Council's governance arrangements include the following:
- 3.2 The overarching ambitions for the City are contained in the City Strategy which is the master plan for development over the next 25 years. The Council adopted this document in December 2010. The

Strategy has also been adopted by the Wolverhampton Partnership which is the City's Local Strategic Partnership (LSP).

- 3.3 The Council's priorities are set and monitored through the Corporate Plan (2009/2012). This document is currently being reviewed, testing the Council's vision and its alignment with City ambitions.
- 3.4 The policy thread is maintained through service plans which connect with corporate priorities and through their translation into individual work plans.
- 3.5 The authority has pursued arrangements for determining and delivering the key strategic priorities, supported by a number of related measures. These measures are cascaded throughout the authority and are included in service plans which define service and individual objectives and which are subject to on-going review and monitoring.
- 3.6 The Council's Cabinet (Performance Management) Panel and the Performance Board receive regular reports on high level performance activity. CMT also receives monthly programme monitoring reports in relation to progress on the delivery of the major corporate programmes and projects. These include: Savings and Transformation, Building Schools for the Future (BSF) and the Local Improvement Finance Trust (LIFT). A programme structure is now in place to manage delivery of the Shared Services Transition (Mainframe Replacement) initiative and a Member Reference Group has been established to oversee this activity.
- 3.7 The Council ensures value for money through the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised. The Council plans its spending through an established planning cycle for policy development, budget setting and performance management designed to ensure that, as far as possible, resources are aligned to priorities.
- 3.8 The Council also recognises the challenges and risks in working with over 100 people/organisations with separate, but linked, joint working arrangements, and accepts that improvements in the governance arrangements may be required. It does, however, have extensive experience of partnership working in complex service and project delivery environments.
- 3.9 The Council has an organisational framework for decision making based on a Cabinet Structure with Scrutiny Groups and Panels with an overarching Scrutiny Board. In addition, there are a number of regulatory committees which include Planning Committee and Licensing Committee. There is also an Audit Committee which has specific responsibility for overseeing the Council's corporate governance and risk management arrangements. The Audit Committee works closely with the Council's Standards Committee and there is an annual joint meeting of the two Committees in order to ensure that their roles and responsibilities are co-ordinated.
- 3.10 The Standards Committee has appointed three Sub-Committees, the Assessment Sub-Committee, the Review Sub-Committee and the Hearings Sub-Committee in order to comply with the new legislative requirements which have ensued from the development of the strategic role which has been adopted by the Standards Board for England. The introduction of the new Sub-Committees has necessitated the recruitment of further independent members in line with legislative requirements. A training programme has been adopted in order to ensure that the independent membership have been made aware of their roles and responsibilities. Training has also taken place for all Standards Committee Members. Further training is envisaged for the forthcoming year.
- 3.11 The Council has adopted a Constitution which sets out how the Council operates, the roles and responsibilities of the various executive, scrutiny and officer functions, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. An officer Constitution Review Group reviews the Constitution on an ongoing basis. Further changes to the Constitution were approved by Council this year and an amended Constitution has been issued. Significantly, the changes have incorporated amendments to the Council's contracting regime. Additionally, changes have been made to confirm changes in the senior management structure of the organisation. A further detailed review of the Constitution as a whole is planned.

- 3.12 The Constitution establishes a framework incorporating protocols, schemes of delegation and financial frameworks upon which the Council is to operate. The Council requires compliance with these elements of the Constitution in order that established policies, procedures, laws and regulations, including the Council's risk management practice, is adhered to. Amendments have been made to the Members' Code of Conduct where this has been necessitated by law. There has been training in connection with the provisions of the Code of Conduct and further training is anticipated. There is an induction programme in place for both officers and Members and further work will continue in developing training as appropriate to officers and Members according to their specific roles and responsibilities. The Council has a strong Internal Audit function with a close working relationship and established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.
- 3.13 The Council has implemented a Risk Management Strategy through a process involving Executive Members, the Chief Executive, Directors, Senior Managers and representatives from External and Internal Audit and Risk Management and Insurance. The strategy is subject to regular review and risk management arrangements are in place which enables the corporate directors, managers and other senior officers to identify, assess, manage and monitor risks within their own work areas which impact on the ability of the Council and its services to meet objectives. Headline assessments of risk are also included in respective service plans and project plans by Service Managers.
- 3.14 Arrangements are in place for all new Members to receive an induction which consists of several elements including (but not limited to) an introduction to political and decision-making processes, key developments, standards of ethics and behaviour expected of Members and local government finance. For some panels, Members also receive training in order to meet legislative requirements. Additional support is provided through tailored Member guides, books, CDs or one to one officer support.
- 3.15 Risk management is an integral part of the Member induction process and a guide has been produced for issue to all Members. Specific training in risk management and corporate governance is also provided to Members of the Audit Committee.
- 3.16 The Council acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned. The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The system includes:
- a robust medium term financial planning process linking budgets to Council priorities;
 - comprehensive revenue and capital budgeting systems;
 - setting targets to measure financial and other performance;
 - the preparation of regular financial monitoring reports which measure actual expenditure and income against forecasts;
 - clearly defined expenditure guidelines and formal project management disciplines.

All of the above are subject to continuous monitoring and review and regular financial reports are submitted to Council, Cabinet, Audit Committee and Scrutiny Panels for Member information, review and approval as necessary.

- 3.17 With regard to the West Midlands Pension Fund, day to day management of the fund is carried out by two separate teams of staff who are dedicated solely to the functions of pensions administration and investments with appropriate support and advice from external investment managers. Both teams report to a dedicated Director of Pensions.
- 3.18 The key elements of the Pension Fund internal control environment include:
- Procedures for establishing and monitoring the achievement of the Pension Fund objectives.
 - The facilitation of policy making and decision making.

- Ensuring compliance with established policies, procedures, laws and regulations.
- Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Pensions Fund are exercised.
- The financial management of the Pensions Fund and the reporting of financial management.
- The performance management of the Pensions Fund and the reporting of performance management.

4. Review of Effectiveness

- 4.1 The Council 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 senior 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.
- 4.2 The Council's Constitution clearly sets out the responsibilities of Members and senior managers, particularly those of the three statutory posts of the Head of Paid Service, Monitoring Officer and Section 151 Officer. There is a requirement to report in this Statement that the authority is not fully compliant with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2009) because the Chief Financial Officer post is not at the same level in the authority as members of the Corporate Management Team and they do not report directly to the Chief Executive. Alternative arrangements are in place whereby the Chief Financial Officer attends meetings of the Corporate Management Team and has direct access to the Chief Executive when required.
- 4.3 The Constitution also sets out the responsibilities of Members and senior managers in relation to operation of the Pension Fund and the Chief Financial Officer, as Section 151 Officer to the Fund, has responsibility to review independently and report regularly to the Superannuation Committee to provide assurance on the adequacy and effectiveness of the code of corporate governance and the extent of compliance with it both in respect of the Council and the Pension Fund. The Chief Legal Officer occupies the role of Legal Advisor to the Pension Fund together with external legal support as and when required.
- 4.4 The Council continually assesses the manner in which its corporate governance responsibilities are discharged as identified by the CIPFA/SOLACE guidance and is able satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Council has an Audit Committee which has clearly defined terms of reference in relation to the Authority's accounting and stewardship functions. The Audit Committee has specific responsibility to oversee the Council's corporate governance arrangements, the work of the Council's internal auditors and the Council's response to external audit and other external inspections that relate to the Committee's work. The Committee regularly receives Risk and Governance reports on each of the Service Directorate's activities and major Projects within the Council. Two sub committees are in place, one to focus on receiving Audit Services' reports on selected financial transaction reviews and current Audit investigations; and the other to review the preparation of the annual financial statements. The delegation of these functions to sub committees helps allow the main Audit Committee to focus on priority strategic and corporate issues.
- 4.5 The Council operates under a Cabinet structure with Special Advisory Groups and three Cabinet Panels reporting up to the main Cabinet. There are also six Scrutiny Panels who work with a Scrutiny Board.
- 4.6 Arrangements for the provision of internal audit are contained within the Council's Constitution. The Chief Financial Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2003 and Amendment Regulations 2006. Internal Audit operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom under the day to day control of the Head of Audit Services who acts independently. The Internal Audit Division plans and prioritises its work through a combination of assessment and review of the Council's corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of managed audit and scheduled visits to Council establishments. The resulting work plan is discussed and agreed with Directors and Chief Officers, shared with the Council's external auditor and

approved by the Audit Committee. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to Elected Members, Directors, Chief Officers, School Heads and Chairs of Governors as appropriate. The review of the effectiveness of the system of internal control is informed by:

- the work of managers within the Council;
- the work of the internal auditors as described above;
- the external auditors in their annual audit letter; and
- reports by other independent inspection bodies (Audit Commission, CQC, OFSTED, etc.).

- 4.7 The Audit Committee has reviewed and updated the Council's fraud related policies, including the Anti-Fraud and Corruption Policy and the Whistleblowing Policy, and copies are published on the Council's intranet and internet sites.

5 Significant Governance Issues

- 5.1 The Council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. An ongoing review of the Council's operational practice is carried out while the existence of a distinct and separate Risk Management service further embeds practice at both a strategic and operational level and ensures a consistent approach to risk assessment, review and reporting.

The following matters represent the most significant current governance issues that are subject to attention in order to ensure that lessons are learnt and good practice is embedded.

- 5.2 **Partnership governance** arrangements include responsibility for monitoring performance and managing risk. Improvements are required to the Risk Management arrangements within the major partnerships, in order to ensure that the risks associated with joint working are adequately identified and managed by the Council in conjunction with the appropriate partner. A Partnership Protocol has been agreed. Work continues in collating a partnership register and a reporting mechanism whereby the status of partnerships in which the Council is involved at a significant level are monitored. This is to ensure that adequate risk management arrangements are in place.
- 5.3 The Council still has to implement **Single Status**, a national agreement between the National Joint Council (NJC) for Local Government and Signatory Trades Unions made on 1 April 1997. The Council has a dedicated project team to implement and govern this process. An independent 'lessons learned' review into the COT3 payments made in 2007/2008 has been undertaken and good practice recommendations following the review are being fed into the Council's overall improvement plan.
- 5.4 During 2009/2010 the Council concluded negotiations about the **proposed strategic partnership** with Axon Solutions Limited and agreed a settlement payment for work completed. The Council has commenced an independent 'lessons learned' review of the proposed partnership and the findings will be fed into the Improvement Plan.
- 5.5 It is acknowledged that the Council's **contingency plans** associated with continuity of service in the event of a major service disruption or disaster require improvement, and resources have been committed to this process. There still remain ongoing issues.
- 5.6 During 2010/2011 the Council began a significant **organisational restructure** of its senior management arrangements. The changes in roles and responsibilities present an increase in risk to the delivery of services and the effectiveness of the internal control system during transition to the new structure. These changes are being monitored and evaluated using project management techniques to ensure any issues are identified and addressed at an early stage.
- 5.7 The Council realises the value and importance of effective **information governance** throughout the Council and acknowledges that improvements are required to the way in which information is stored, managed and disposed of. A robust Information Governance Strategy will be developed over the coming

year which will be supported by a policy framework containing information policies, procedures and guidelines.

- 5.8 The Council has identified that it needs to make **significant budget savings** over the medium term in order to address the financial challenges that are predicted. These challenges include the requirement to:
- fund the outcome of single status job evaluation and equal pay claims;
 - cope with the impacts of the economic recession on income receipts and demand for services;
 - ensure that treasury management risks are identified and managed effectively;
 - deliver on major capital programmes at a time of diminishing capital receipts;
 - balance the growing demand for Council services against the impact of significant cuts in external funding.

Approval

In approving this statement, the views of all Directors and a number of Senior Managers have been obtained and suitable assurances obtained confirming that this statement is an accurate representation of the current position.

.....
Simon Warren
Chief Executive

.....
Councillor Roger Lawrence
Leader of the Council

Date: 22 June 2011