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| Local Members' Interest |
| N/A |

Audit and Standards Committee – 26 September 2016

Annual Governance Statement

Recommendation

1. To approve the Annual Governance Statement (AGS).

Joint Report of the Director of Strategy, Governance and Change and the Director of Finance and Resources

Background

2. The attached AGS has been prepared in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) issued in 2007 updated in 2012 and covers the following headings:
 - What are we responsible for
 - The aim of the governance framework
 - The governance framework
 - Review of how effective our governance framework is
 - Significant governance issues
3. Following on from the above, Annex 1 reproduces “The Annual Review of the Effectiveness of the Governance Framework including the system of internal control – 2015/16.” This document has been instrumental in producing the AGS and details appropriate sources of assurance.
4. In recognition of the importance of the AGS, CIPFA /SOLACE guidance provides for it to be signed off by the Chief Executive and the Leader of the Council following consideration by the Committee.

Equalities and Climate Change Implications

5. There are no direct implications arising from this report.

Legal Implications

6. The preparation and publication of the AGS is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations 2015.

Resource and Value for Money Implications

7. There are no direct resource implications arising from this report. Significant internal control issues with specific reference to mitigation actions emanating from the Corporate Risk Register will need to be considered against the resources available and the Council's "appetite for risk".

Risk Implications

8. An inadequate Governance Framework can lead to loss of reputation and finance and external censure.

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List of Background Papers

CIPFA/SOLACE Framework including Guidance Notes

Annual Governance Statement 2014/15

Annual governance statement 2015/16

1 What we are responsible for

We are responsible for carrying out our business in line with the law and proper accounting standards, and for using public money economically, efficiently and effectively, and accounting for it properly. We also have a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and an efficient and effective service.

To meet our responsibility, we have put in place proper arrangements for overseeing what we do (this is what we mean by governance). These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in good time, and in a fair, open, honest and accountable way. We have approved and introduced a Code of Corporate Governance. You can get a copy of the code from our website at www.staffordshire.gov.uk or from:

Director of Strategy, Governance and Change
1 Staffordshire Place
Stafford
ST16 2LP

This governance statement explains how we have followed the code and also meets the requirements of the Accounts and Audit Regulations 2015.

2 The aim of the governance framework

The governance framework is basically the systems and processes, and the culture and values, we are controlled by and which we answer to, get involved with and lead the community. The framework allows us to monitor how we are achieving our long-term aims, and to consider whether our aims have helped us deliver appropriate services that are value for money.

The system of internal control is an important part of the framework and we have designed it to manage risk to a reasonable level. It cannot remove all risk of failing to achieve our policies and aims, so it can only offer reasonable protection. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks that could prevent us from achieving our policies and aims;
- assess how likely it is that the identified risks will happen, and what will be the result if they did; and
- manage the risks efficiently, effectively and economically.

We have had the governance framework in place from 1 April 2015, and up to the date we approved the Statement of Accounts.

3 The governance framework

Our governance framework is made up of the many systems, policies, procedures and operations we have in place to do the following.

a Publish our aims for local people and others who use our services

We have an agreed vision and three interconnected priority outcomes. Our vision is for “a connected Staffordshire, where everyone has the opportunity to prosper, be healthy and happy”.

Our three priority outcomes are that the people of Staffordshire will:

- Be able to access more good jobs and feel the benefits of economic growth;
- Be healthier and more independent; and
- Feel safer, happier and more supported in and by their community.

These outcomes reflect those agreed by the Staffordshire Strategic Partnership as priorities for all of Staffordshire’s public services. All our Cabinet members and Directors have a list of accountabilities that clearly link to the Strategic Plan.

The commissioning and delivery plans that support the Strategic Plan are captured in our Business Plan which sets out specific priorities. We will monitor and manage our performance against the Business Plan, use it to guide our investment decisions, ask employees to explain how they have contributed via My Performance Conversation and regularly review and refine it to make sure we are on the right track.

To deliver the vision we need to continue to fundamentally review everything we do, how we do it and develop new and different ways of achieving our outcomes with less resources. We need to retain what has worked well, but challenge ourselves hard to develop new ways of working and delivering to respond to the challenges and opportunities ahead of us.

Our approach is captured in a series of values, behaviours and operating principles that will guide our thinking and choices. To achieve this, elected members will lead the delivery of this strategy, shaping the debate and discussion with local people and presenting the case for the decisions we need to make in the future.

b Review our aims and the effect they have on our governance arrangements

We have developed a number of continuous community engagement methods which we use to review the impact of our activities and the quality of our relationships with individuals and communities. Broadly these mechanisms consist of:

- Feedback via members enquires;
- Bi-yearly consultation surveys in conjunction with Staffordshire Police;
- Ongoing reporting of our customer comments, complaints and feedback;
- Bespoke consultation to support policy development and service re-design;
- Feedback via social media including website feedback, Twitter, Facebook and other microsites and through a new email subscription service, GovDelivery, launching in summer 2016;

- Through publishing our residents' magazine, 'My Staffordshire' annually and receiving comments and feedback;
- Webcasting Council and Cabinet meetings on our website so that local people can see how decisions are made and local democracy operates;
- We publish a range of financial, procurement and expenditure information in line with the Local Government Transparency Code on our internet pages.

The combined feedback from our community engagement activity has been used to inform the development of our Strategic Plan and forms part of our continuous approach to performance management reporting. This information is presented on a quarterly basis through Cabinet and is also used in the production of reports for Select Committees and other governance arrangements as required.

It is our Corporate Governance Working Group's responsibility to make sure that our governance arrangements are consistent with, and support us in, achieving our aims.

c Measure the quality of our services and make sure we provide them in line with our aims and that they provide value for money

As well as the Cabinet, the Senior Leadership Team (SLT) and individual management teams, our reporting system gives the Select Committees a central role in monitoring our performance. The SLT and the Cabinet receive a bi-monthly performance scorecard against important indicators and activities. This allows them to act quickly when our performance seems to be slowing or even failing. Every three months, the SLT and the Cabinet receive a full and detailed performance report that compares how we have delivered our services and managed our finances against the plans and, as a result, the Business Plan.

d Make sure our financial management arrangements meet the governance requirements of the CIPFA Statement on the role of the Chief Finance Officer in Local Government

Our Director of Finance and Resources (the Chief Financial Officer) reports directly to the Chief Executive, sits on the Senior Leadership Team, and has status that is at least equivalent to other directors. The Director of Finance and Resources is professionally qualified and his main responsibilities include those set out in the CIPFA Statement on the role of the Chief Finance Officer in Local Government.

e Make sure we use our resources effectively and efficiently, and give value for money

Our Medium Term Financial Strategy (MTFS) and the budget process that supports it will identify the resources we need to deliver our Strategic Plan. To do this, we review how we use resources to support our aim of offering better value for money.

We support our need to achieve "best value" by using a number of programmes and processes. Here are some examples.

- In the 2015/16 MTFS, £31.1m of savings were originally identified along with £1.6m invest to save schemes. Final outturn totalled £27.2m. The major reason for this variation related to non-achievement of savings in the areas of modernisation and schools business improvement. We report regularly on the progress we make in

achieving the planned savings and in maintaining spending within our budget. Reports are received at all levels including SLT and Cabinet.

- We approved the MTFS 2016/17 – 2020/21 in February 2016. This Strategy includes service savings as identified below.

Savings

| | |
|---------|----------|
| 2016/17 | £29.216m |
| 2017/18 | £37.285m |
| 2018/19 | £49.710m |
| 2019/20 | £56.947m |
| 2020/21 | £62.130m |

To help us achieve these savings and 'do more and better for less', we have set up a Challenge board (including the Deputy Leader, Chief Executive and Director of Finance and Resources) who are responsible for:

- Providing a forum which provides challenge and rigour to services, whilst providing an encouraging environment to share ideas and models in order to deliver innovative services which meet political priorities set by Cabinet;
- Helping deliver service models that not only drive improvement to the front line, but also offer excellent value for money for the taxpayers;
- Recognising that we cannot continue to deliver services in the way that we do, developing a successful business model that is sustainable long term;
- Providing recommendations and assurance to Cabinet that the MTFS process has been through satisfactory challenge and scrutiny, recognising that pressures and savings are realistic and are deliverable; and
- Encouraging appropriate scrutiny of recommendations coming from the Board to ensure the credibility of the Board remains.

Linked to the above, we have a Corporate Review Committee. The Committee is responsible for scrutinising the development of the MTFS and the process of setting the Annual Budget and Council Tax levels. It is also responsible for scrutinising assets, procurement, efficiency and value for money, and corporate finance. It has established a dedicated MTFS Working Party to ensure that the scrutiny process is rigorous.

With effect from December 2015 the County Council has a new External Auditor – Ernst & Young (EY). EY are responsible for performing the 2015/16 annual audit.

The county council has been unable to agree a Staffordshire BCF (Better Care Fund) financial plan for 2016/17 as a result of communications received from the Clinical Commissioning Groups (CCG's) in May 2016, and the matter has been escalated to the Department for Health. As a consequence, the county council faces a £15m funding shortfall in 2016/17. There are also significant challenges in achieving the savings expected through the Staffordshire and Stoke-on-Trent Partnership Trust (SSOTP). It is a reflection of our good financial management that we identify problems at an early stage and act on them. Consequently, all non-essential spending has been stopped until further notice and will remain in place at least until we know the outcome of the BCF escalation process. This applies to all services excluding schools.

f Define and record the roles and responsibilities of those involved in making our policies and decisions, showing arrangements and procedures for effective communication

Our Constitution sets out the roles of, and relationships between the Cabinet, the Select and other Committees involved in making our policy and decisions. The Constitution also sets out the responsibility of each group or individual for making particular types of decision or for directors' decisions relating to particular responsibilities. Under the Constitution, all decisions that we make or that are made on our behalf must be made in line with the principles and frameworks set out in the Constitution.

The Council's democratic structures changed in May 2016 to redefine two cabinet support posts as Cabinet members and a strong alignment of Shadow Cabinet posts to the select committee arrangements

The Constitution also sets out how members of the public can get involved in the decisions we make (including under the 'Access to Information Rules'). We make it easy for people to be involved by broadcasting important Council meetings over the internet. Every month, the Cabinet receives a 'forward plan' from the Director of Strategy, Governance and Change that sets out the main issues that they are likely to consider during the next four months and, as appropriate, what consultation will take place before they make any decision and who will be involved in this consultation. We have a legal responsibility to carry out consultations before we make certain decisions.

We review the Constitution and update it on an ongoing basis to reflect legislation and changes to practice within the authority.

We have a member of staff responsible for improving our governance arrangements. This is intended to make our arrangements even more open, accessible and accountable.

g Develop, communicate and follow codes of conduct, and define the standards of behaviour for members and staff

We have set up a Corporate Governance Working Group which is made up of the Director of Strategy, Governance and Change, the Director of Finance and Resources, and other senior directorate officers and specialists. This Working Group oversees our core governance activity, including approving our main ethical documents (for example, codes of conduct) and processes, and works closely with our members.

We have introduced and placed on the Intranet all our main ethical governance documents and processes, such as:

- our whistle-blowing policy;
- our 'Integrity in Staffordshire' policy;
- codes of conduct;
- delegation procedures (in other words, who reports to who, who has authorisation for what);
- our policy on money laundering (trying to disguise money which has been gained illegally, so that it seems legal);
- personal performance reviews / my performance conversation; and
- the requirement for Interest Declarations by senior officers.

h Review and update standing orders, standing financial instructions, a delegation scheme (which says who is responsible for what) and supporting procedure notes and manuals, all of which clearly define how we make decisions and our processes and controls to manage risks

Effective management is based on a framework of regular management information, financial regulations, standing orders and a structure of varying levels of responsibility. We have all these types of documents in place and we regularly review them (for example, financial regulations and procurement regulations). It is one of the roles of our Corporate Governance Working Group to make sure that these documents are up to date, relevant and made available to staff and other interested individuals or groups.

We also have a policy statement and action plan on risk management in place which the Audit and Standards Committee periodically review. The Committee also review the Corporate Risk Register and Mitigation Action Plan.

i Carry out the main functions of an Audit Committee, as identified in the Chartered Institute of Public Finance and Accountancy (CIPFA's) 'Audit committees: practical guidance for local authorities'

We have an Audit and Standards Committee which follows CIPFA guidance. We also have an Audit Charter in place, which defines working relationships between the Committee and our Internal Audit Section, and the level and amount of information that is provided for our members. A series of training and awareness sessions have been put in place to make sure the Committee can perform their role effectively.

The role of the Committee includes responsibility for the standards agenda from the Standards Committee (which has been disbanded) so that it now has the full remit of responsibilities in respect of governance.

j Make sure we follow all relevant laws and regulations, internal policies and procedures, and that our spending is legal

We have officers who make sure that we follow all relevant laws, regulations and so on, and they include:

- the Head of Paid Service (the Chief Executive);
- the Monitoring Officer (Director of Strategy, Governance and Change; and
- the Chief Finance Officer or Section 151 Officer (Director of Finance and Resources).

Our Legal Services Unit identifies areas of possible legal or administrative risk in our day-to-day business and makes sure that we meet all our legal responsibilities.

Our Legal Services Unit and Commercial Teams ensure compliance with Procurement law and the Council's own Procurement Rules.

We have an Information Governance Unit to ensure compliance with statutory and regulatory obligations around information. The Council also has a Senior Information Risk Owner (SIRO) role to understand and own information risk.

Our Director of Finance and Resources is responsible for carrying out an ongoing internal audit in line with the Accounts and Audit Regulations 2015. We have an effective Internal Audit Section, which works in line with the new Public Sector Internal Audit Standards together with the Local Government Application Note. We buy in specialist audit services from the private sector. The Chief Internal Auditor has the right to report direct to the Chief Executive, and to any member of the Cabinet and the Audit and Standards Committee.

In June 2016 our Audit and Standards Committee considered the annual review of how effective the Internal Audit Section is and the Internal Audit Out-turn Report (2015/16) which gave an opinion on how well our controls are working. Within this report, full details of counter-fraud and corruption work (which link to our Anti-Fraud Strategy) were disclosed. The Council's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).

Our Internal Audit Section carries out a regular review of how well we are following established procedures. More and more, this work is being linked to risks other than finance. Also, the Audit and Standards Committee, Select Committees, External Audit and other inspection agencies contribute to the review of how well we follow policies, procedures, laws and regulations.

The Council's Caldicott Guardian ensures the appropriate use of patient data.

All areas of the Council have schemes and sub-schemes of delegation to ensure that decisions are taken at an appropriate level.

k Whistle-blowing, and receiving and investigating complaints from the public

We have arrangements in place to receive and investigate complaints about any of our staff not reaching proper standards of behaviour, and of fraud and corruption. We have a whistle-blowing policy in place. We have also set up an anti-fraud hotline and have recently created an email account for Fraud to be reported (our Internal Audit Section monitors the calls and also the email account inbox).

We deal with complaints about us or our services through our customer feedback process or through the special procedures we have to follow by law for certain types of complaint (for example, complaints involving Social Services, children or race). We do our best to sort out complaints by agreeing or negotiating, but if we cannot sort them out in this way we give the person complaining the contact details of the Local Government Ombudsman, who may investigate the matter and whose decision is final.

Our Audit and Standards Committee has responsibility for considering any matters relating to the behaviour of Council members, and has powers to deal with complaints about Councillors.

l Identify the development needs of council members and senior officers, and support them with appropriate training

We have set up a framework of development opportunities for Council members that is linked to their personal performance review (PPR) process. There are role descriptions for members to help them identify and develop the skills they need.

We continue to deliver leadership-development programmes for our managers. These help us to improve our management performance, resources and staff performance. We have maintained political awareness training for our officers, and incorporated this into the induction process for new managers, to make sure that there are effective relationships between officers and members. Many of these development opportunities are now accessible through e-learning.

m Set up clear ways of communicating with all sections of the community and other interested groups, make sure we are responsible for what we do, and encourage open consultation

These arrangements were explained in section 3b.

n Include good governance arrangements in our working relationships with our partners and other groups we work with, as recommended by the Audit Commission's report, and reflect these in our overall governance arrangements

The Staffordshire Strategic Partnership (SSP) has carried out a major review of how they work, which has resulted in the Strategic Board concentrating on a much smaller number of shared priorities. The SSP is supported by the Local Enterprise Partnership and the Health and Well Being Board (which is responsible for approving the vision and schemes of the Better Care Fund (BCF)) as well as local district arrangements.

As the Council commissions services from external partners it looks to ensure that appropriate and proportionate governance arrangements are in place.

4 Review of how effective our governance framework is

We are responsible for carrying out, at least once a year, a review of how effective our governance framework is, including our system of internal control.

Our review of how effective our systems and procedures are is supported by the work of the Corporate Governance Working Group and the Chief Internal Auditor's annual report. The review also includes comments made by the External Auditor's and other review agencies and inspectors.

This review found that we had all the necessary parts of the framework in place. The particular areas that have led to this conclusion are described in more detail below.

a Review of corporate governance

Whilst the annual review of corporate governance has been deferred pending evaluation of the new CIPFA / SOLACE document entitled "Delivering Good Governance in Local Government: Framework 2016" the Corporate Governance Working Group are confident that current documents and processes represent an effective governance framework.

b Actions contained within the 2014/15 annual governance statement (for 2015/16)

The review of actions aimed at improving our arrangements for corporate governance has confirmed that we have made good progress. We have:

- Continued to resource and implement large scale transformation projects to address the continued financial pressures facing the council (e.g. the transformation of Adult Social Care to better manage demand)
- Made some progress in responding to the challenges arising from the health and social care agenda (e.g. input to the Sustainability and Transformation Plan (STP))
- Assessed the opportunities and challenges presented by the Devolution agenda and its impact on Staffordshire with our Partners
- Implemented a Commercial and Contract Management team through the combination of the Commissioning Delivery Hub and Procurement teams
- Defined and implemented a new Senior Leadership Team (SLT) structure

c Annual audit letter

An unqualified opinion from the External Auditor was issued on our final accounts for 2014/15. This means that our financial position was presented fairly and in line with all laws and regulations which apply.

The Auditor did not find any significant weaknesses in our accounting and control systems during the 2014/15 audit, and there were no examples of unusual spending, fraud or misconduct, or poor standards of financial openness.

d Annual out-turn report – internal audit

The Internal Audit Section gave us an ‘adequate assurance’ opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework. A number of audit reviews¹ during 2015/16 have identified high level issues, which has resulted in the system being awarded a limited assurance opinion. It is important that the key actions identified in response to the recommendations made are implemented as agreed and progress monitored to ensure that the necessary steps have been taken to strengthen the control environment. This will be a key focus for the 2016/17 Internal Audit Plan.

e Annual review of how effective our internal audit is

As reported to the Audit and Standards Committee as part of the Annual out-turn report, we have an effective system of internal audit in place, as measured against set conditions, which include:

¹ SAP Enterprise, Care Act Requirements – Prisoners, Deprivation of Liberty Safeguards, Deputyships, Deferred Payment Agreements for Care Costs, Procurement outside of Staffordshire Procurement, Oracle Database System Management, Independent Foster Agencies – contract and monitoring, Special Educational Needs Transport, DBS review – Taxi Drivers and Escorts, Compromise Agreements and Purchasing Cards

- how well we follow the new Public Sector Internal Audit Standards together with the Local Government Application Note;
- our main performance results; and
- feedback from the Director of Finance and Resources.

f Other reasons to feel confident – monitoring officer and the chief finance officer

During 2015/16 the Monitoring Officer and the Chief Finance Officer did not have to use their official powers.

g Other reasons to feel confident – Select Committees

We have effective processes in place. Our scrutiny arrangements provide for Select Committees, the responsibilities of which reflect our focus on key outcomes.

h Other reasons to feel confident – corporate directors and ‘risk owners’

We have a developing system of confirming that our controls are working. Where necessary, we implement appropriate action plans to strengthen our controls.

i Other reasons to feel confident – Corporate Risk Management Strategic risk register

The format of the risk register continues to be revised as the County Council develops its business operating model. In addition, members’ of the Senior Leadership Team challenges the coverage of the register.

j Other reasons to be confident – low number of complaints and whistleblowing cases

Our Audit and Standards Committee did not investigate any complaints about the behaviour of our elected members. The Ombudsman did not uphold any complaints about governance issues. No whistleblowing issues were considered by the Corporate Governance Working Group.

5. Significant governance issues

The Corporate Governance Working Group and the Audit and Standards Committee have given us advice on the result of the review of how effective our governance framework is. As a result, we have put in place a plan to make sure we continuously improve the system.

We will do the following.

- Seek to better join up health and social care to include development of the Sustainability and Transformation Plan (STP), Better Care Fund (BCF), and confirmation of the Delivery Vehicle for the Future Delivery of Adult Social Care
- Implement the County Council’s 2016/17 spending review to address the funding shortfall as a consequence of failure to agree a Staffordshire BCF financial plan and to

continue to transform services to address the continued financial pressures facing the council

- Define and implement a programme governance structure to manage the decommissioning of SAP (the Council's financial and payroll system)
- Prepare for the May 2017 County Council elections and the new administration that will follow for 2017 to 2021
- Monitor (in conjunction with partners), the opportunities for devolution from Government, particularly around Business Rates, and the EU in terms of the repatriation of funding and powers
- Review our Operating Model to make sure it continues to be fit for purpose, and, in particular, to assess the impact of four key enablers (Digital, Community Capacity, Demand Management and Commercialism) and their potential to deliver transformation benefits

Over the next year we will be taking steps to tackle the issues listed above, so we can further improve our governance arrangements. We are satisfied that these steps will bring about the improvements that we identified in our review of effectiveness, and we will monitor these improvements as part of our next annual review.

Signed:

Leader of Staffordshire County Council

Signed:

Chief Executive of Staffordshire County Council