

Appendix 1 - LEICESTER CITY COUNCIL ANNUAL GOVERNANCE STATEMENT 2014-15

1. Background

Leicester City Council is responsible for ensuring that its business is conducted in accordance with the law; proper standards; that public money is safeguarded; properly accounted for; and, used economically, efficiently and effectively.

It 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, Leicester City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Leicester City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) framework *Delivering Good Governance in Local Government*. A copy of the code is on our website under 'Council and Democracy' or can be obtained from Customer Services.

This statement is produced in fulfilment of the requirements of regulations 4(2) and 4(3) of the Accounts and Audit (England) Regulations 2011.

2. Introduction

The Council's governance framework comprises both the systems and processes and the 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 Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

Local government continues to undergo significant changes and the environment in which it works remains complex. As well as being provided directly, public services are increasingly delivered through commissioning, partnerships and collaboration, with many shared services and partnership boards now in existence. The introduction of new structures and ways of working provides challenges for managing risk, ensuring transparency and demonstrating accountability.

The system of internal control is the most significant part of the Council's governance 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 may only provide reasonable, not absolute, assurance of effectiveness.

The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of the Council'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 Leicester City Council for the year ended 31 March 2015 and up to the date of approval of the accounts.

3. The Governance Framework

The Council has in place an assurance framework that takes the Council's principal strategic and organisational objectives as its starting point, including the City Mayor's nine Key Priorities for Leicester. Key strategies and plans translate these objectives into deliverable actions. High-level risks that threaten the achievement of objectives are identified in the strategic and operational risk registers. It is the responsibility of management to establish and maintain effective systems of governance and internal control to ensure that the Council's service objectives are delivered and risks to those objectives are managed in accordance with the Council's Risk Management Strategy and Policy.

In order that the Council's business is delivered in a way that promotes public trust and confidence, there must be sufficient assurance that sound internal control arrangements are in place and operating effectively. The assurance framework brings together various internal and external sources of assurance with internal audit being fundamental to this.

The Council is also required to carry out, at least annually, a review of the effectiveness of its system of internal control. This is done by all Directors by means of positive assurance in the form attached at Appendix A. The intention of the assurance framework is, therefore, to set out a structured and coordinated process, drawing together the outcomes of the various assurance, governance and control mechanisms to ensure that the Annual Governance Statement is comprehensive in its coverage and reliable in its content

4. Review of Effectiveness

The Council is committed to the maintenance of a system of internal control which:

- Demonstrates openness, accountability and integrity;
- Monitors and reviews compliance with policies, procedures, laws and regulations and effectiveness against agreed standards and targets;
- Monitors and reviews the effectiveness of the operation of controls that have been put in place;
- Identifies, profiles, controls and monitors all significant strategic and operational risks.

The risks identified are subject to regular review and appropriate controls are identified to manage them. The results of that review, together with the three measures below, provide the core information for the preparation of the Annual Governance Statement:

- An independent review of the effectiveness of internal control carried out by the Council's Internal Audit team
- An annual review of the Effectiveness of the System of Internal Audit, as required by the Accounts and Audit Regulations (England) 2011
- The External Auditor's Annual Audit Letter and Annual Governance Report which include findings from the work of other inspection regimes,

Leicester City 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 executive managers within the Council who have responsibility for the development and maintenance of the governance environment, Internal Audit's annual report and the Summary of Internal Audit Conclusions, and by comments made by the external auditors and other review agencies and statutory inspectorates.

The Council's Local Code of Corporate Governance complies with CIPFA/SOLACE's guidance *Delivering Good Governance in Local Government* and includes a self-assessment of compliance with the six core principles of good governance. The results of that assessment are set out in the Directors' Certification at Appendix A.

5. Significant Governance Issues

The Council's control frameworks enable the identification of any areas of the Council's activities where there are significant concerns in the financial controls, governance arrangements or the management of risk. Having considered all the principles within the CIPFA '*Code of Practice on Managing the Risk of Fraud and Corruption*', we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Overall, it can be concluded that controls are operationally sound and that the Council's financial management arrangements conform with the governance requirements of the CIPFA '*Statement on the Role of the Chief Financial Officer in Local Government (2010)*' as set out in the Application Note to '*Delivering Good Governance in Local Government: Framework*'.

Areas of significant risk or priorities for action have been identified and are listed at Appendix A below. This is in two parts:

- Those items identified in the Annual Governance Statement for 2013-14, with the action taken since to address them
- Additional items identified in 2014-15, together with a summary of the action being taken or planned to make the necessary improvements.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

..... (City Mayor) (Date)

..... (Chief Operating Officer) (Date)

..... (Director of Finance) (Date)

**Appendix A - Leicester City Council Annual Governance
Statement 2014-15
Directors' Certification**

Leicester City Council is required to demonstrate that its governance processes and procedures comply with the six CIPFA/SOLACE fundamental principles of corporate governance. These are listed below with the principal sources of evidence or assurance:

A. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area:

- Major strategic documents setting out the vision for specific areas of work are in place, including the Economic Action Plan, Health and Wellbeing Strategy, Climate Change programme of action, Children & Young People's Plan and Heritage Action Plan.
- A major programme of work is being successfully delivered to support regeneration and economic development in the City. This includes a significant programme of capital projects and programme of activity to support business growth and increased employment levels for Leicester's residents. Appropriate programme management and partnership arrangements are in place, most notably the Leicester & Leicestershire Enterprise Partnership.
- The Council has an equality and diversity strategy which is being implemented to ensure we meet our public sector equality duties and focus on the needs of communities particularly in relation to the 'protected characteristics' defined by the 2010 Equality Act.
- Robust safeguarding arrangements are in place to mitigate the risk of harm to children and vulnerable adults, supported by established Safeguarding Boards.
- Departments have established their own performance management arrangements to underpin both the vision and manifesto commitments the wider operational activity of divisions including, where appropriate, departmental plans and regular performance monitoring and reporting. A Performance Group for Children's social care and safeguarding services has been established to reinforce the departmental performance management arrangements in this critical area. Continuing to improve the rigour of performance management across the Council remains a priority.
- Organisational vision and values have been developed for staff and will underpin policies like performance management and are being formally launched.

B. Members and officers working together to achieve a common purpose with clearly defined functions and roles;

- The Council's Constitution is kept under regular review and has been extensively updated in a number of areas to account for both

legislative changes and the continued development of governance arrangements and practice.

- The 'Political Conventions' within the Constitution offer clear advice on the working relationships between officers and members and the City Mayor and his Executive.
- Formal and informal working between the Executive and officers is well established.
- Lead Directors are in place to support scrutiny commissions.

C. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

- The code of conduct and standards regime for elected members which was introduced in July 2012 is becoming embedded and has been reviewed to ensure it remains fit for purpose. New independent members have been appointed to fill vacancies which existed on the Standards Committee.
- The staff code of conduct was revised and agreed in 2013-14.
- As noted above a defined organisational vision and values have been developed to reinforce the organisational purpose, vision and values to staff and a programme to formally launch and embed these is now in development.
- A programme of reviews of key human resources policies and associated procedures continues for example, the attendance management policy and procedure was reviewed and a new policy and procedure agreed in 2014-15.
- The number of complaints to the Local Government Ombudsman has reduced.
- Robust management practices continue for issues such as attendance management and controls around spending e.g. agency staff, consultancy, etc.
- There are regular mechanisms for engagement with the recognised trade unions around staffing and workforce issues.
- There are well established programme and project management standards along with corporate oversight and support to ensure those involved in the governance and delivery of projects and programmes understand and are able to adhere to the expected standards.
- There is an established and effective system of internal control and internal audit, aimed at ensuring proper use of resources and giving assurance on the effectiveness of the arrangements for the management of risk. The system of internal audit, which includes the fulfilment of its role by the Audit & Risk Committee, has been reviewed for effectiveness.

- The Council's Fraud and Investigations teams have been thoroughly reviewed, re-organised and re-launched and have given added emphasis to the Council's 'zero tolerance' attitude to fraud.

D. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;

- Risk, financial, legal, equalities and sustainability implications are considered within the decisions taken.
- Strategic and operational risk registers are regularly considered and reviewed.
- Information assets and the supporting information infrastructure are subject to appropriate governance controls to mitigate risk whilst supporting partnership working and compliance with transparency requirements.
- Processes for forward planning, taking and publication of Executive decisions under the mayoral model are defined and are supported by officer guidance.
- There is a recognised approach for taking executive decisions in line with recently changed legislation on this issue.
- There is a need to continue to look at how scrutiny is supported to ensure that it works efficiently and effectively.
- A Capital Advisory Board is now well established, chaired by the Strategic Director for City Development and Neighbourhoods. This has senior officer representation from legal, finance, property, procurement, governance and programme management who provide rigorous challenge and oversight of capital projects and programmes at key gateway points.
- The Council continues to adhere to the recommendations arising from an equal pay audit commissioned in 2013-14. This found that the Council's pay structure remains transparent and free from gender bias, with a low level of vulnerability to equal pay claims. Recommendations from the audit continue to be actively implemented.

E. Developing the capacity and capability of members and officers to be effective;

- A comprehensive programme of induction for members has been planned and is being delivered following the May 2015 elections. This covers a range of critical information and also provides an opportunity for new elected members to meet with key officers and services.
- There is a nominated workforce development lead for member development.
- The accommodation strategy seeks to maximise the productivity of the workforce and support positive collaboration.

- The Leicester Leaders training and development programme has successfully engaged many senior managers.
- The HR service was reviewed to ensure resources were properly aligned to priority areas of support. It is recognised there still are aspects of people management that need to be improved. A strategic HR work programme for 2013-2017 has been developed with a focus on these areas, including workforce planning, staff performance management, workforce development and workforce representation.
- A framework and training programme was developed to support service redesign and transformation which continues to be a major demand in terms of skills and capacity given the scale of change and savings that still need to be achieved. Some aspects have been concluded and we are reshaping the function to provide better workforce support.
- The new staff intranet (launched in 2013-14) continues to provide a key source of guidance for staff on policies, procedures, governance and other aspects of the Council's operations.
- Talent-match has been developed as an internal jobs market approach and is being piloted as a means of effectively recruiting staff and minimising the costs associated with redundancy.

F. Engaging with local people and other stakeholders to ensure robust public accountability.

- There is a more robust and consistent approach to consultation through the work of the Research & Intelligence Team.
- The consultation platform, Citizen Hub, provides an effective on-line approach to support consultations across the Council.
- There remains a strong focus on media engagement and external communication with core capacity boosted to support this.
- Key strategic partnerships are in place around major themes and operating in accordance with legislation where relevant, such as Health and Wellbeing and Leicester and Leicestershire Economic Partnership.
- The City Mayor's Faith and Community Forum has been operating for over a year to support effective engagement with key communities, especially (but not exclusively) those identifying with the protected characteristic of religion or belief. This is key to supporting integration and cohesion with the city and our public sector equality duty.
- A short digest of our constitution is published on our website aimed at making the key governance arrangements of the Council clearer and more accessible.
- The Council's website has been fundamentally redeveloped to support on-line transactions and engagement and to provide key up to date and relevant information to the public in an easily accessible and user friendly format. Feedback to date has been very positive.

- The Council is reviewing the services it commissions from the voluntary and community sector to support engagement with key communities across the protected characteristics of faith, race, sexual orientation and gender identity, with a view to establishing a robust and appropriate approach for the future.
- The Council has in place processes for responding to external audit and inspection arrangements, with particular reference to the annual audit of the Council's published financial statements and the Annual Governance Statement.

Significant Governance Issues

The Council's control frameworks enable the identification of any areas of the Council's activities where there are significant weaknesses in the financial controls, governance arrangements or the management of risk. Overall, it can be concluded that controls are operationally sound.

The areas of significant risk or priorities for action that have been identified are listed below:

A. Items identified in the Annual Governance Statement for 2013-14, with the action taken since to address them.

Area of significant risk or priority for action	Comment	Action planned	Action taken
Medium-term financial strategy	The Council approved £85m of spending cuts between 2010-11 and 2014-15 in response to unprecedented real terms cut in government funding. Whilst this has been carefully managed and the Council continues to live within its available resources, the governments most recent spending plans (July 2015) indicate a continued trajectory of reductions. The methodology adopted by government has adversely affected deprived authorities such as Leicester, who are more reliant on government grant. This now includes an impact to the Housing Revenue Account (HRA) with the proposed reduction in social rents by 1% per annum.	The Council continues to manage its medium term-financial strategy carefully, with significant input from the City Mayor and Executive. A process has been agreed and is under way to address the funding challenges the Council faces. This includes a managed reserves strategy to enable the City Mayor and Executive to properly plan and consider future reductions appropriately.	The Council's spending review programme is designed to address the need to reduce budgets, but this is a significant challenge. The recent impact to the HRA will be evaluated and considered as part of the overall budget strategy.

Area of significant risk or priority for action	Comment	Action planned	Action taken
Performance management	There is a need to continue to ensure the effectiveness of performance management across the Council.	Children's Performance Group in place to review and strengthen performance management in this area. Corporate Management Team have introduced a monthly business and performance meeting into their cycle.	Departments have established their own performance management arrangements to underpin strategic priorities and plans, as well as wider operational delivery. This is supported by key systems including the new Liquid Logic system across adult and children's social care. There is a continued need to embed and assure the strength of these arrangements.
Voluntary and community sector engagement	There is a need for a more co-ordinated approach to managing our engagement with the Voluntary and Community Sector (VCS) and to be aware at an earlier stage of any emerging issues.	A review is underway of arrangements for working with the city's voluntary and community sector (VCS) to support engagements with communities. The manifesto also includes a commitment to review the way the Council involves and engages with the VCS.	The Council has reviewed the services it commissions in relation to: <ul style="list-style-type: none"> • Support for the City's VCS; and, • Support for volunteering in the city. New services were commissioned in these areas.

Area of significant risk or priority for action	Comment	Action planned	Action taken
The Care Act 2014	Reflecting the most significant reform in adult services in over 60 years, the Care Act builds on developments in adult social care away from paternalistic and managed care towards empowerment, choice and control for adults and carers.	Originally the Care Act was due to be introduced in two parts. Part one (April 2015) saw the introduction of a national eligibility criteria and carers assessments. . Part two of the Act was due to be implemented in April 2016, which would have seen the introduction of new funding reform. However the Government has deferred the implementation until 2020.	Processes are in place to monitor the impact of the changes via the Adult Social Care departmental Change Management Board.

Area of significant risk or priority for action	Comment	Action planned	Action taken
Continuing variable compliance with rules and procedures.	There is an increased risk that controls will be diluted as a result of streamlining of management structures in response to the current financial pressures. The consequent loss of experienced staff increases the risk of error. Moreover, these factors combined with the increased incentive brought about by financial hardship during a recession increase the risk of fraud.	Internal Audit assurance work in the 2015-16 audit plans.	Continuing requirement. Strengthening of senior management monitoring of compliance. Internal Audit has maintained an extensive programme of planned audit reviews supplemented by specially commissioned audits undertaken on the basis of risk to the Council. Service management has responded constructively to the conclusions of audit reviews and the recommendations made. Any matters of concern together with any non-implementation of recommendations are reported to the Audit & Risk Committee on a regular basis throughout the year.

Previous years		
Area of significant risk or priority for action	Comment	Action taken
Management and letting of contracts	<p>Significant work is being carried out to develop a procurement approach which delivers value for money from procuring goods and services whilst improving the skills and knowledge within the procurement teams.</p> <p>Some concerns remain, however, in relation to the management of contracts and the Internal Audit Contract Audit Plan for 2012-13 includes a number of contracts and procurement-related audits to help provide assurance in relation to this area.</p>	Internal Audit has re-established its contract audit capacity. It now has a programme of contract audits, the scope of which includes the processes for procurement and contract management. Contract audit remains a priority in Internal Audit planning.
Management of Payments to Service Users	An Internal Audit identified significant weaknesses in the procedure for managing payments to service users.	Implementation of the Audit recommendations was managed via a joint response from the Adult Social Care and Business Service Centre teams.
Improve engagement with stakeholders within Adult Social Care.	Adult Social Care has now approved a Stakeholder Engagement Strategy to ensure effective engagement and increase co-production with their stakeholders.	The planned Stakeholder Engagement Strategy has been fully implemented and is used in key project activity.

B. Additional items identified, together with a summary of the action being taken or planned to make the necessary improvements.

Area of significant risk or priority for action	Comment	Action planned
<p>Response to the recent 'OFSTED' inspection.</p>	<p>An Ofsted 'Inspection of Services for Children in Need of Help and Protection, Children Looked After and Care Leavers' published on 20th March 2015, graded Leicester's children's services as 'inadequate'.</p>	<p>In line with national requirements from the Department for Education (DFE) we have established an Improvement Board chaired by an experienced person approved by the DfE; and have submitted an Improvement Plan to Ofsted by 22nd June 2015.</p> <p>There are also a number of internal controls in place to ensure that work on the Ofsted recommendations progresses satisfactorily:</p> <ul style="list-style-type: none"> • The Operational Improvement Group (which meets fortnightly) chaired by the Divisional Director, monitoring detailed service improvement plans for Early Help, Children in Need, Children Looked After and Workforce • The Performance Group (which meets monthly) examining the monthly report on key performance indicators and any other significant areas of Performance and Quality including progress against the Workforce Strategy • Service Performance Meetings in Early Help, CIN (Children in Need) and Children Looked After • Quality Assurance work being carried out to audit case files by external auditors • Regular reviews of progress and reports to the Audit and Risk Committee by Internal Audit.

Therefore, all Directors have confirmed that they understand the responsibilities placed upon them and in particular that:

- Subject to the identified areas of significant risk and priorities for action, all of the services for which they are responsible have in place processes and procedures that align to these principles and to the best of their knowledge and belief these processes are operating satisfactorily;
- The Directors as a management team set the 'tone from the top', embedding core values and principles throughout all Council service areas.