

Kirklees Council

Annual Governance Statement 2017/18

Scope of responsibility

Kirklees 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. 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, Kirklees Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and this includes arrangements for the management of risk. Kirklees Council has a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework *Delivering Good Governance in Local Government 2016*. A new Code of Corporate Governance was agreed in November 2017 part way through the current financial year. A copy of the Code is available from the Monitoring Officer.

This Statement explains how the Council has complied with the Code and also meets the requirements of Accounts and Audit Regulations 2015, Regulation 6, which requires all relevant bodies to publish an annual governance statement to accompany their Statement of Accounts.

This Statement aims to provide assurance about the Council's governance framework to enable readers of the Accounts to be satisfied that proper arrangements are in place to govern spending and safeguard assets. Where specific improvements and/ actions are needed, brief information is provided about the key issues and the main areas of work that have been progressed during 2017/18 and are being developed going forward in 2018/19, together with an Action Plan to assign responsibility and a timescale for implementation.

The purpose of the governance framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a Council relates to the

communities that it serves. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its' activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its' strategic objectives as set out in the Corporate Plan and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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 Kirklees Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

Kirklees Council has been working to its Code of Corporate Governance for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts. The Code was refreshed part way through the 2017/18 financial year.

The governance framework

Key elements of the systems and processes that comprise Kirklees Council's governance include arrangements for:

- a local Code of Corporate Governance that assigns overall responsibility for corporate governance to the Service Director of Legal, Governance & Commissioning, working with the Corporate Governance and Audit Committee, to assess operational practice and behaviour, and prepare this Statement. The key policies and procedures that comprise the core of this process are described within the Code, together with the standards and cultural expectations of the organisation
- a Leader and Cabinet model of governance. During the year several of the Cabinet portfolios were revised to meet individual circumstances and to ensure delivery of the Council's priorities.
- a revised governance and scrutiny process following the Ofsted report on Children's Services which include a dedicated Children's Scrutiny Panel
- statutory officer roles performed by the Chief Executive as Head of Paid Service, the Service Director, Legal, Governance & Commissioning as Monitoring Officer and the Service Director Finance, IT & Transactional Services as Section 151 Officer. The Acting Chief Executive became substantive in summer 2017. Towards the end of the year the S151 Officer left the Council and the role was assumed on a temporary basis by the Head of Finance & Accountancy, supported by his counterpart at Calderdale MBC. The acting S151 Officer is a professionally qualified accountant, as was his predecessor and reports directly on financial matters to the Chief Executive as a member of the Executive Team (ET). The Council is currently reviewing the requirements for this role.
- a Corporate Plan that outlines how officers will seek to run the Council to meet our community commitments at the same time as achieving our objectives within the continuing and significant financial constraints on the Council over the medium term.

- oversight and delivery of the Council Transformation Programme, including a number of officer boards as described in the Constitution
- the Monitoring Officer who has responsibility for defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions in the Constitution, with clear delegation arrangements and protocols for effective communication, and ensuring the legality of the Authority's actions and decision making.
- the S151 Officer who has responsibility for ensuring that the financial management arrangements conform with all of the governance requirements of the five principles that define the core activities and behaviours that belong to the role in the CIPFA *Statement on The Role of the Chief Financial Officer in Local Government (2010)*.
- developing, communicating and embedding codes of conduct defining the standards of behaviour for members and staff;
- a mechanism to enable both employees and the public to anonymously share concerns through the whistle blowing arrangements
- a system for receiving, investigating and reporting the outcome of complaints from residents and service users as well as requesting information about the Council's activities and about themselves under the Freedom of Information and Data Protection legislation
- a nominated senior manager to act as the Caldicott Guardian responsible for protecting the confidentiality of patient and service-user information and enabling appropriate information-sharing in conjunction with the Council's information governance and security policies and arrangements
- managing partnerships and other group working that complement the Council's overall governance arrangements. The S151 officer monitors and reports on the financial effectiveness of the subsidiary and joint venture companies, whose accounts are subject to external audit, albeit that the joint venture companies have a different financial year. In addition, the Council provides an internal audit service to Kirklees Neighbourhood Housing (KNH) Limited and the Company's governance arrangements include an Audit Committee.

Annual Review of effectiveness

Kirklees Council has a legal responsibility for conducting, at least annually, a review of the effectiveness of its governance framework and that of the other parts of its Group activities such as KNH, 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, the Head of Audit & Risk's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The Council has four bodies / committees jointly responsible for monitoring and reviewing governance. These are:

- the Executive (Cabinet);
- the Corporate Governance & Audit Committee;
- the Overview & Scrutiny Committee; and
- the Standards Committee.

The main parts of the review process are as follows:

1. Review of effectiveness of the system of internal control

In accordance with the requirements of the Accounts and Audit Regulations 2015 and Public Sector Internal Audit Standards (PSIAS) the Council conducts an annual review of the effectiveness of its system of internal control to be considered as part of its governance assurance processes, including the production of the AGS.

Responsibility for the review rests with the Corporate Governance & Audit Committee. The 2017/18 review [approved by the Corporate Governance & Audit Committee 20 April 2018] demonstrated that we have an effective system of internal control including a policy framework, internal audit function, Audit Committee and effective management engagement, although there is scope for improvements in a number of areas as outlined later in this Statement. The Head of Audit & Risk has commissioned and received an initial independent external assessment of the current degree of compliance with the Public Sector Internal Audit Standards which concluded that Internal Audit does conform with these Standards and an Action Plan has been agreed to further improve compliance and progress with this which will be monitored by the Corporate Governance & Audit Committee. KPMG, our external auditors, confirmed that, where required, they take assurance from the quality and extent of internal audit work done in 2017/18, including assurance over the core financial systems activity.

2. Head of Audit and Risk Annual Assurance Opinion 2017/18

The Head of Audit and Risk is responsible for providing an independent opinion on the adequacy and effectiveness of the Council's systems of internal control, risk management and governance arrangements. This is delivered through an annual risk based programme of audit work designed to raise standards across the Council. Internal Audit Quarterly Summary Reports are presented to the Corporate Governance & Audit Committee to provide assurance that the annual programme is being delivered as planned. This culminates in the Annual Opinion Report.

Based on the programme of planned Internal Audit work and other than in respect of a small number of significant control issues that have arisen during the year (where actions / steps to deal with / manage the issue have been identified, appropriate remedial steps have been agreed with management), the Head of Audit and Risk has provided assurance that overall the Council's systems of governance, risk management and internal control are generally sound and operate reasonably consistently across Services.

The main issue and priority, as recognised by management, continues to be that the Council sustains and completes the programme of transformational change and embeds improvement across the Council whilst maintaining service delivery and the effective operation of key controls. In a Council of Kirklees' size and complexity, with its significant change agenda and the impact of the Comprehensive Spending Review settlement, there is a heightened risk of reduced compliance with control mechanisms, particularly where roles and systems are changing and/or where there is reduced capacity.

Individual areas of potential risk and areas for improvement have been identified, recommendations have been made to address the risk, and management action plans have been agreed. The Council continues to conform to the CIPFA *Code of Practice on Managing the Risk of Fraud & Corruption* and its response is appropriate for its fraud and corruption risks and it commits to maintain its vigilance to tackle fraud.

The Corporate Governance & Audit Committee has approved a realignment of approach to audit planning and providing assurance to reflect key risks within available resources.

3. External Auditor's Review of the Effectiveness of our Governance Arrangements

During the year the External Auditor's Annual Report to those charged with Governance confirmed

- an unqualified opinion on the Council's 2016/17 financial statements (two objections remain to be resolved but these did not affect the overall opinion); and
- an unqualified value for money conclusion, except in relation to Children's Services, stating that we have made proper arrangements to secure economy, efficiency and effectiveness in our use of resources.

4. Corporate Governance & Audit Committee

The Committee's terms of reference include agreeing and updating regularly the Council's Code of Corporate Governance, monitoring its operation and compliance with it.

During 2017/18 the Corporate Governance & Audit Committee reviewed a number of aspects of the Council's governance arrangements and noted or approved revisions or made recommendations to Council as appropriate, including:

- Revision to parts of the Constitution which were approved and subsequently passed at Annual Council. Council, Contract and Financial Procedure Rules for 2017/18
- External Audit reports
- Corporate Customer Standards Annual Report 2016/17
- Information Governance Annual Report 2016/17
- Emergency Planning & Continuity Annual Report 2016/17
- Standards Regime & Members' Code of Conduct Review
- the Head of Audit & Risk's Quarterly and Annual Reports
- the Treasury Management Strategy – confirmed ongoing compliance with the CIPFA Code of Practice and various statutory requirements.
- Reviewed and updated the Council's Code of Corporate Governance

Recognising the need to ensure that members of the Committee have the appropriate support and skills to carry out their role a series of short training sessions were provided through the year looking at Treasury management, the role and expectations of Governance and Audit Committee as well as interpreting financial accounts. The sessions were also offered to other members with an interest in the topics.

5. Overview & Scrutiny Committee

During 2017/18 the Committee reviewed a number of aspects of the Council's governance arrangements including:

- Children's Services Improvement Partnership with Leeds City Council
- Improving the quality of health & adult social care
- Medium Term Financial Plan

- Democracy Commission report
- Citizen's Account
- Corporate performance monitoring
- Prevent Strategy
- statutory consideration of preparation for winter flooding and crime & disorder issues

6. Standards Committee

During the year the Committee reviewed various aspects of Member conduct, support and training, the appointment of an Independent Person for the Council and consultation by the Committee on Standards in Public Life to inform review of Local Government Ethical Standards.

7. Role of the Chief Financial Officer

The role of the Chief Financial Officer (CFO) continues to reflect the governance arrangements set out in the CIPFA Statement, which are required to ensure the CFO is able to operate effectively and perform their core duties as part of the review of the Constitution. The Council's financial management arrangements fully conform to those set out in the Statement.

8. External Agencies' Reviews

Ofsted

As reported in last year's Statement, the Council received an *Inadequate* opinion concerning the performance of its Children's Social Services activity at the end of 2016. Following the Ofsted report, the Government appointed a Commissioner to advise the Secretary of State for Education about the prospects for delivery of the required improvement within the designated timescale and with the Council's full support the Secretary of State subsequently determined that Leeds City Council should act as its' partner in achieving improvement to Children's Services, and the partnership agreement has now been approved by the Department for Education. The Director of Children's Services at Leeds City Council now also holds the statutory post of Director for Children's Services at Kirklees.

Ofsted have continued to review progress in implementing the Action Plan to address the key issues from their original inspection.

9. Significant Partnerships

Partnerships range from joint venture partnerships, thematic partnerships and their subsidiaries to key contractual agreements managing substantial amounts of public money. The main contact officer for each Partnership is responsible for assessment of the governance arrangements and providing details of any significant changes to the membership and circumstances of the partnership. This information is used by senior officers of the Council to assess the potential risk that the partnership presents to the reputation or financial standing of the Council. The Council is working on a number of areas where arrangements need to be revised to strengthen and embed the governance framework.

10. Officer Governance

Officer Boards as prescribed in the Constitution have continued to drive forward the Transformation Programme within the context of the Medium Term Financial Plan with strategic oversight from the Executive Team and escalated of appropriate issues. These arrangements are subject to both Cabinet and Scrutiny oversight.

Overall Conclusion & Opinion

We have been advised on the implications of the results of the above review of effectiveness of the governance framework by the Corporate Governance and Audit Committee, and are satisfied that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The areas with ongoing and revised actions planned are outlined below.

Progress with the remaining significant governance issues in last year's Statement

Three of the issues included in last year's Statement have been resolved or substantial progress has been made enabling us to be assured that they no longer represent a risk to the effectiveness of the governance arrangements, namely the

- refresh of the Code of Corporate Governance referred to earlier,
- arrangements to manage business continuity following a major IT incident, and
- interaction with the role of Kirklees Children's Safeguarding Board.

The remaining areas are described below:

1. **Strengthening the Corporate Plan and management arrangements to be more outcome focussed**

The Corporate Planning process is being developed to ensure it includes a clear direction of travel incorporating the delivery of longer term key priorities, often with partners, such as investment in the highway network and town centres regeneration but is not yet sufficiently aligned to the budget setting process.

New corporate performance arrangements are established but need embedding more over a longer period of time to drive improvements required.

2 **Strengthening the governance framework with key Partners**

Whilst the governance arrangements with key partners have been improved considerably with much strengthened Board arrangements which are working as intended and agreed partnership outcomes, the challenge now is to embed these within the normal working relationship with all parties and to deliver the desired outcomes.

3 Risk Management arrangements

A revised Risk Management Statement that places greater emphasis on the identification of project and major circumstantial threats and improved “management” of the situation was approved at the Corporate Governance & Committee and Cabinet. A new quarterly review arrangement, with the chief executive and executive team, now considers risk alongside organisational performance and a cross service officer panel has been established to aid the identification, quantification and assessment of risk and report to Executive Tam accordingly. Corporate Risk now needs to be fully developed and embedded further and appropriate action taken by risk owners.

4 Procurement Rule Compliance

A new governance and management structure has been agreed, designed to provide a more centralised focus and strengthen arrangements. It now needs to be implemented to drive improved effectiveness and compliance across the Council at an increased pace, both in terms of forward planning and management of contracting.

5 Increasing the capacity and skills to deal with workforce management

The People Strategy has been launched, highlighting 5 themes which provide an overall focus for the work that is needed. 8 work streams will be key to delivery of the Strategy and will feed into and support the transformation agenda. The Strategy that is supported by an action plan which is being reviewed and updated on an ongoing basis now needs to be ‘owned’ by the organisation, managers and staff. Corporate standards and guidance needs to be developed more quickly to enable managers to develop the necessary skills to make and lead changes that are required.

6 Develop Information Governance arrangements to be GDPR compliant and cyber resilient

The GDPR Project is ongoing and well managed but the level of change required is significant and high risk and will continue to require substantial commitment, effort and training to ensure that the council meets statutory requirements and to ensure cyber resilience.

7 Meeting the challenging savings targets required in the Medium Term Financial Plan

Planned savings in 2017/18 totalled £54m against a general fund (net) revenue budget of £307m. This has been a significant challenge for the organisation, and the Council has successfully delivered £49m of the planned savings in-year; equivalent to 91%. A further £7m unplanned savings in-year have also been identified.

Whilst the amount of future change / saving is less than that which has been achieved already, the task faced to do so remains as great, given that the most readily deliverable changes have been made already and there remains uncertainty about how local government funding will be met after 2020. The lead in time and impact of many of the remaining planned changes is such that the risk of delay is heightened. The organisation must ensure concerted management effort that remains focussed on designing,

implementing and embedding and cost controlling planned saving for 2018/19 and beyond.

8 Implementing and embedding the Ofsted Improvement Plan for Children's Services

Planned intensive leadership support from Leeds City Council is ongoing until summer 2018, when it is anticipated a permanent arrangement for the leadership of children's services will be in place, together with a new IT system, followed by ongoing support, advice and mentoring until summer 2019. Getting the outcomes right for children and young people should also achieve reductions in costs over time.

Based on experience in Leeds and in other authorities that it will take two to three years to fully realise projected savings there is a heightened risk of impact upon the Council's wider financial position due to the scale of operation. Moreover, the Council still has substantial progress to make on its journey to improve the assessed quality of its Children's Services. Focus in 2018/19 needs to be on implementing the leadership, IT and other changes that are necessary to move substantially forward in respect of quality and cost of provision and that will inform the external auditor's VFM Conclusion on the Council overall.

9 Improve Income Recovery Performance and Cost-effectiveness

Improvements have been made to IT system configuration and user training and the Payments project has been completed including the provision of technology to provide a more cost effective administration of income recovery. The underlying issue remains one of effective credit control whereby payment by direct debit or at the point of order becomes the corporate standard with proactive management of outstanding historical debt.

Significant governance issues identified in 2017/18

Arising from a fundamental period of change in the history of local government the annual review of governance effectiveness described above has identified the following additional significant governance issues in the current year;

10 Managing the risks arising from innovative projects or ones that are new to the Council that form part of the Transformation Programme

The Transformation Programme includes delivery of several projects that are innovative and/ or new to the Council and thus require new skills, knowledge and experience for successful outcomes.

11 Appropriate response to major issues that require decisions for the medium term, notably waste strategy and management

There are a number of major issues which do not have a consequence in 2018/19 but have very substantial future consequences that need effective management and resolution in the short term. The most pressing of these is Waste Strategy and Management, others include aspects of children's services delivery, adult social care and health and social care integration.

12 Enhance the effectiveness and challenge of organisational governance including, Scrutiny, Corporate Governance & Audit committees

The current systems and procedures for ensuring effective organisational governance would benefit from review and strengthening, particularly set against the backcloth of regional devolution, to ensure that there is a positive and a learning approach by effective challenge of the Cabinet by Council and Scrutiny, and of officers by the Cabinet, and Corporate Governance & Audit Committee.

An Action Plan has been formulated and will be subject to regular review by Internal Audit, with initial reporting to the Executive Team and Corporate Governance & Audit Committee.

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:

David Sheard
Leader of the Council

Jacqui Gedman
Chief Executive

DRAFT ANNUAL GOVERNANCE STATEMENT 2017/18

ACTION PLAN FOR 2018/19

	<u>Significant Governance Issue</u>	<u>Managed Action</u>	<u>Director Lead</u>
1	Corporate management arrangements and the Corporate Plan need strengthening to achieve more successful outcomes of key Council objectives with limited resources	Continue to develop the Corporate Plan with a clear direction of travel that incorporates longer term strategic planning around key issues Review budget setting arrangements for 2019/20 and beyond regarding outcome based budgeting Embed revised corporate performance management arrangements	SD Policy, Intelligence & Public Health and Executive Team Acting SD Finance
2	The governance framework with key Partners needs to be strengthened	Clearer management of related (associated) parties Develop and embed partnership boards and arrangements, including member training	SD Policy, Intelligence & Public Health and Executive Team
3	Overall risk management arrangements do not reflect the current financial position	Develop corporate risk management fully and embed the new arrangements Ensure risk owners take appropriate action	SD Legal, Governance & Commissioning Head of Risk
4	Procurement Rule compliance needs strengthening to protect the Council from legal challenge and ensure value for money	Implement and embed the strengthened and centralised revised arrangements	SD Legal, Governance & Commissioning

	<u>Significant Governance Issue</u>	<u>Managed Action</u>	<u>Director Lead</u>
5	There is a lack of sufficient capacity and skills to deal with workforce management	<p>Promote ownership of the People Strategy by the organisation, managers and staff.</p> <p>Deliver the project work streams</p> <p>Develop timely corporate standards and guidance to enable managers to develop the necessary skills to make and lead changes that are required.</p> <p>Embed and develop the Aspiring Manager programme</p>	SD Policy, Intelligence & Public Health Head of HR / OD
6	Current Information Governance arrangements require development in preparedness to be compliant with revised Data Protection regulation in 2018 and the risk of a cyber security incident	<p>Delivery of GDPR Project with support from the Information Governance Board</p> <p>IT technical response</p>	SD Legal, Governance & Commissioning Head of IT
7	The Council needs to ensure it meets the challenging savings targets required in the Medium Term Financial Plan	Delivery of the Transformation Programme ensuring appropriate focus on designing, implementing, embedding and cost controlling planned saving for 2018/19 and beyond.	Chief Executive SD Policy, Intelligence & Public Health SD Finance Head of Transformation
8	Addressing the serious weaknesses identified in the Ofsted inspection report of Children's Services	Continue to implement and embed the Ofsted Improvement Plan in conjunction with Leeds City Council colleagues to improve the provision of Children's Services and achieve the savings required	Director for Children's Services

	<u>Significant Governance Issue</u>	<u>Managed Action</u>	<u>Director Lead</u>
9	Income recovery needs strengthening to ensure cost effectiveness	<p>Implement payment at the point of order or by direct debit as the corporate standard per Financial Procedure Rules and customer relationship management</p> <p>Introduce more proactive corporate debt recovery management</p>	<p>Acting SD Finance SD Commercial, Operational & Regulatory Services</p> <p>Head of Revenues & Benefits</p>
10	Transformation Programme Project Management Risk	<p>Project Risk Management</p> <p>Ensure appropriate knowledge, skills and experience are available</p> <p>Learn from partners</p>	SD Policy, Intelligence & Public Health
11	Medium Term Risks requiring Decisions in the Short Term	<p>Maintain visibility via the revised risk management arrangements and take action accordingly</p> <p>Political input to raising Government awareness of the implications for authorities of any further delay in determination of its overall strategy and policy</p> <p>Align the Waste Management contract renewal with a Waste Strategy which meets DEFRA obligations.</p>	<p>Chief Executive All SD</p> <p>SD Commercial, Operational & Regulatory Services</p>
12	Enhancing organisational governance systems and procedures, particularly around challenge effectiveness at Scrutiny and Corporate Governance & Audit committees	<p>Address the recommendations regarding decision making arising from the Kirklees Democracy Commission</p> <p>Skills audit in conjunction with Group Business Managers Review Member Training</p> <p>Specialist training for key roles</p> <p>Consider a peer review</p>	Chief Executive SD Legal, Governance & Commissioning