



Derby City Council

# Annual Governance Statement 2018/2019



Derby City Council

## **What is Governance in Derby City Council?**

Governance is about how we ensure that we are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Good governance leads to effective:

- leadership and management;
- performance and risk management;
- stewardship of public money from Derby council taxpayers; and
- public engagement and outcomes for our citizens and service users.

We approved a new Local Code of Corporate Governance in March 2017. It is consistent with the seven principles set out in 'proper practice' for the public sector, namely 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE.

The overall aim of the Local Code of Corporate Governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities;
- there is sound and inclusive decision making;
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

A copy of our Local Code is available on our website at [www.derby.gov.uk](http://www.derby.gov.uk).

This Annual Governance Statement (AGS) for 2018/19 demonstrates how we have complied with our local code and met the requirements of Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, which requires us to prepare an annual governance statement.

## **What is the purpose of our Governance Framework?**

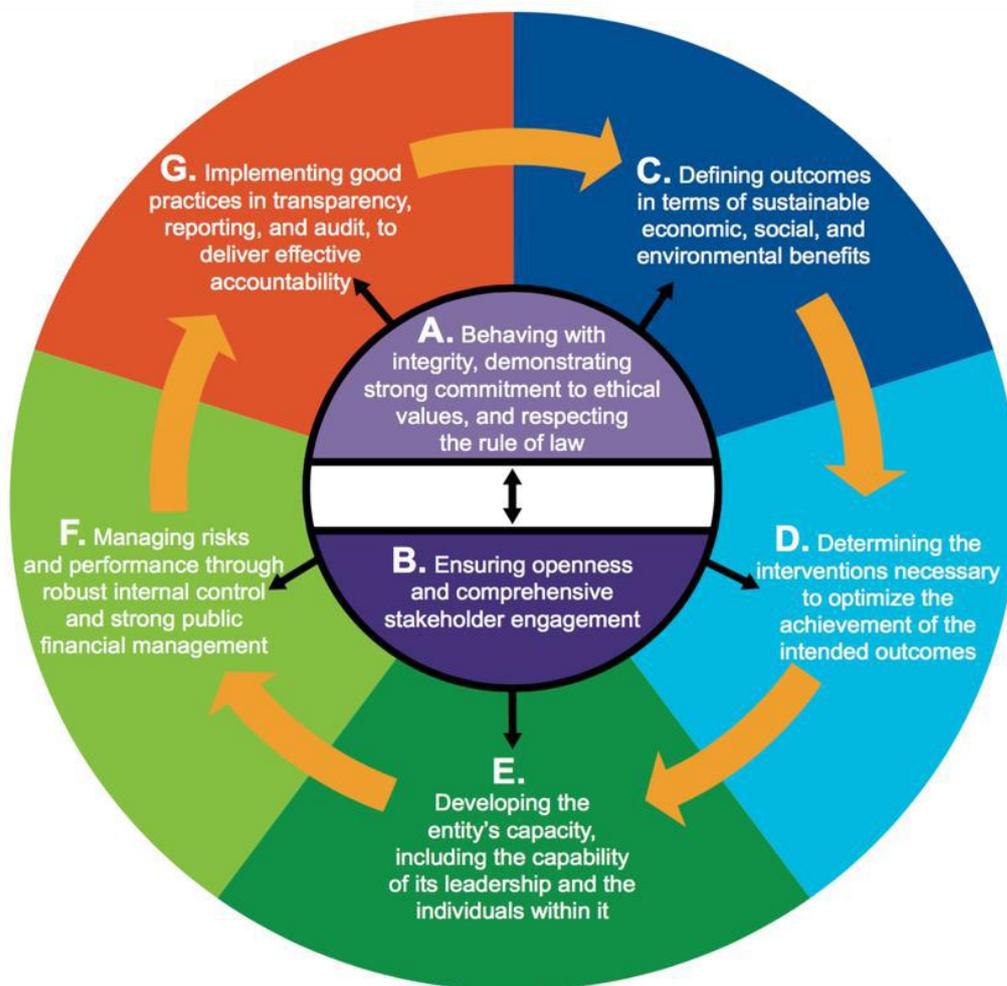
Our governance framework aims to ensure that in conducting our business, we:

- operate in a lawful, open, inclusive and honest manner;
- make sure public money is safeguarded, properly accounted for and spent wisely;
- have effective arrangements in place to manage and control risk;
- secure continuous improvements in the way we operate.

Our governance framework is comprised of the culture, values, systems and processes by which we are directed and controlled. It brings together an underlying set of legislative and regulatory requirements, good practice principles and management processes.

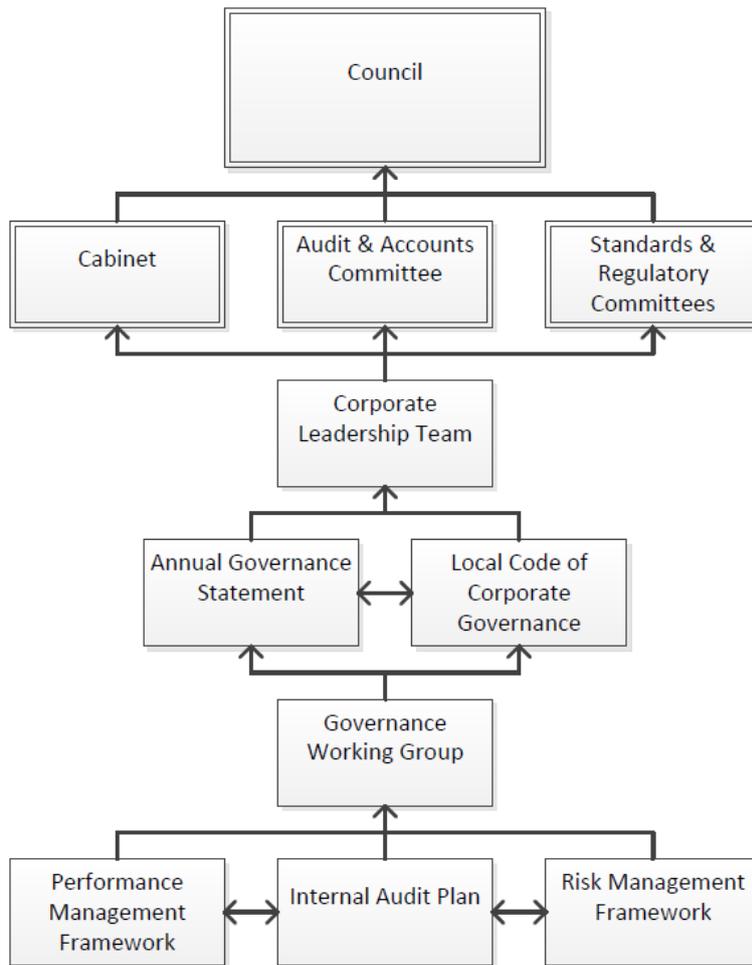
Our system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of Internal Control is based on an on-going process designed to identify and prioritise risks, evaluate the likelihood and impact should risks be realised, and efficiently, effectively and economically manage such risks.

The "Delivering Good Governance" framework below envisages it will be a continuous process of seven principles with a core of A and B being about the behaviours of integrity demonstrating a strong commitment to ethics and respecting the rule of law with practices being carried out in the spirit of openness and comprehensive stakeholder engagement.



Source: CIPFA/SOLACE

## What is our governance structure?



## What is our Governance Framework?



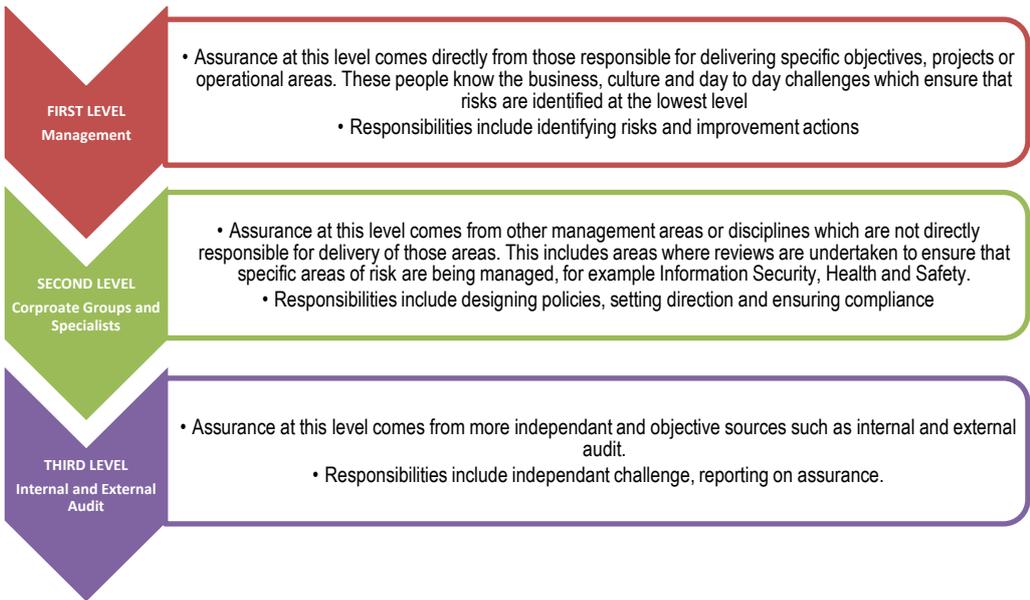
# What Does Our Governance Assurance Framework look like?

Good assurance in any organisation provides confidence, based on sufficient evidence, that internal controls are in place and are operating effectively and that objectives are being achieved.

Our assurance framework is the structure within which Councillors and Senior Management identify the principal risks to the Council in meeting its key objectives, and through which we map out both the key controls to manage them and how they have gained sufficient assurance about the effectiveness of those controls. Our assurance framework underpins the statements made within this Annual Governance Statement.

Assurance can come from many sources. The Governance Working Group, chaired by the Strategic Director of Corporate Resources, is responsible for mapping out where those assurances are coming from in order to identify any gaps. The Working Group gives the Corporate Leadership Team (CLT) the assurance it needs and in turn provides assurance to the Audit and Accounts Committee.

We use the Three Lines of Defence model of assurance within our governance framework, enabling us to understand how each line of defence contributes to the overall level of assurance and how best they can be integrated and mutually supportive as shown below. It also provides opportunities to identify potential gaps in assurance enabling us to take corrective action in a timely manner.



## How has this Annual Governance Statement for 2018/19 been prepared?

In preparing this Annual Governance Statement we have:

- reviewed our existing governance arrangements against the revised CIPFA / SOLACE 'Delivering Good Governance in Local Government framework - 2016 Edition' good practice guidance;
- assessed the effectiveness of our governance arrangements against the Local Code of Corporate Governance.

## How do we monitor and evaluate the effectiveness of our governance arrangements?

We continue to review the effectiveness of our governance arrangements on an ongoing basis and report on the position annually. The key sources of assurance that inform this review are outlined below:

- The work of the Standards Committee enables us to assess whether good governance actions and behaviours are operating within the Council;
- The work of Councillors (Cabinet and Audit and Accounts Committee) and Senior Officers (Corporate Leadership Team) who have responsibility for good governance;
- the three statutory officers, being the Head of paid Service, Section 151 Officer and Monitoring Officer;
- The Head of Internal Audit's annual report on Internal Audit Activity 2018/19, which provides independent assurance that key risks (financial and non-financial) are being adequately controlled and provides an opinion on the effectiveness of these arrangements;
- Regular updates to Audit and Accounts Committee on Risk Management activity for 2018/19 **with risk surgeries to explore areas in more detail**;
- Performance monitoring of key deliverables in the Council Plan as well as key performance indicators as can be seen in the latest reports to Cabinet - <https://www.derby.gov.uk/council-and-democracy/budgets-spending-performance/council-performance/>
- Challenge through Overview and Scrutiny (for example topic reviews, performance items and surgeries) as can be seen in the reports to [Executive Scrutiny Board](#);
- Inspections and assessments (such as Ofsted Inspection of Local Authorities Children's Services Framework and Sector Led Improvement activity in Children's and Adults Services);
- Any comments made by our External Auditors in their Value for Money Opinion;

- Recommendations and comments made by any other review agencies and inspectorates; and
- Customer insight through complaints, the media and Freedom of Information requests.

### **How do we know that our arrangements are working?**

The table below details the seven principles of the CIPFA/SOLACE Delivering Good Governance framework and provides an analysis of the effectiveness of how we conform with each element of that framework, and identifies areas where improvements are required which flow through to the action plan at the end of the statement.

Governance Principle	Sub-Principle	Assurance on Compliance
<b>Acting in the public interest requires a commitment to effective arrangements for:</b>		
<b>Principle A</b> <b>Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</b>	1. Behaving with integrity	<ul style="list-style-type: none"> <li>➤ The political and managerial leadership sets the tone.</li> <li>➤ Through this leadership we ensure that the required policies are put into place and monitored.</li> <li>➤ The Employee Code of Conduct forms part of the Council’s Constitution and set out the behaviours expected of employees.</li> <li>➤ The Officer/Member Protocol which forms part of the Constitution sets out the way Councillors and Officers should interact.</li> <li>➤ Training is provided to Councillors who are involved in a number of committees including Licensing, Audit &amp; Accounts Committee and Planning.</li> <li>➤ The “Members’ Code of Conduct” forms part of the Constitution.</li> <li>➤ Standards Committee produces an Annual Report to Council which includes a synopsis of Code of Conduct related complaints received during the Municipal Year in respect of Councillors.</li> </ul>
	2. Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> <li>➤ In accordance with the Localism Act 2011 we have adopted a Code of Conduct for our Councillors that is in keeping with the general principles of public life. All Councillors and co-opted Members undertake that they will observe the Code of Conduct.</li> <li>➤ Training on the ethical standards framework is provided to all Councillors and training is provided on an annual basis immediately following the local elections which are by way of thirds with one fallow year.</li> <li>➤ The Standards Committee monitors and reviews the Councillors’ Code of Conduct and prepares an annual statement to Full Council.</li> <li>➤ The new ‘Complaints against Councillors’ policy was unanimously agreed by Full Council on 23 May 2018.</li> <li>➤ The Employee Code of Conduct was updated in April 2019 to include an</li> </ul>

Governance Principle	Sub-Principle	Assurance on Compliance
		<p>Employee Ethics Statement to provide guidance to our employees on the ethical framework within which we seek to conduct its activities; and on the processes that the Council uses to ensure compliance with the highest ethical standards. The Ethics Statement reflects similar principles to the Nolan Principles which form the basis of the Members' Code of Conduct.</p>
	<p>3. Respecting the rule of law</p>	<ul style="list-style-type: none"> <li>➤ Codes of Conduct set out the standards of behaviour that are expected of our Councillors and Officers. Should these standards be breached they will be dealt with, either through the "Members' Code of Conduct" complaints process or, in relation to Officers, action taken under our capability and/or disciplinary procedures.</li> <li>➤ The Whistleblowing Policy adopted by the Council ensures its effectiveness from a safeguarding perspective and to make it easier for staff to raise concerns about malpractice or illegal activity. The Policy contains clear guidance about how to report a concern, who to contact and sources of internal and external support.</li> <li>➤ The Whistleblowing Policy is complemented by the Anti-Fraud and Corruption Policy, the Anti-Bribery Policy and the Anti-Money laundering Policy.</li> </ul>
<p><b>Principle B</b> <b>Ensuring openness and comprehensive stakeholder engagement.</b></p>	<p>1. Openness</p>	<ul style="list-style-type: none"> <li>➤ We are committed to openness and publish information online in accordance with the provisions of the Local Government Transparency Code and the Freedom of Information Publication Scheme.</li> <li>➤ We have in place procedures which allow, within certain parameters, the recording and filming of Council meetings.</li> <li>➤ Only a minimal number of reports are considered in closed session (known as Part II) and for the majority of these reports there is a public facing report (known as Part I) which sets out the matter to be decided upon, but without the information that is exempt from publication.</li> <li>➤ In June 2017, we had an LGA Corporate Peer Challenge which included a review of our leadership and governance. A follow-up review took place in</li> </ul>

Governance Principle	Sub-Principle	Assurance on Compliance
		November 2018 which reported that positive progress had been made.
	2. Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> <li>➤ We engage with large numbers of stakeholders. We have a comprehensive engagement system with statutory stakeholders such as the NHS, CCG, Derbyshire Constabulary and Derbyshire Fire and Rescue Service. We have further subject based stakeholders particularly economic development such as the Local Enterprise Partnership (LEP), Derby Nottingham Metro and the Derby Renaissance Board.</li> </ul>
	3. Engaging with individual citizens and service users effectively	<ul style="list-style-type: none"> <li>➤ Local focus and community engagement is successfully promoted through Neighbourhood Forums and Boards within a number of wards. There are plans to put these in every ward in 2019/20.</li> <li>➤ Public consultation is undertaken on specific areas of service, or on matters that may have a substantive impact on residents, facilitated by our Consultation Team. The Communications and Marketing Team ensure that specific matters are placed in the media and engage with the media over enquiries on specific matters. Both of these teams have been transferred into the Chief Executive’s ‘Corporate Core’ Service.</li> </ul>
<p><b>In addition to the overarching requirements for acting in the public interest found in principles A and B, achieving good governance also requires a commitment to, and effective arrangements for:</b></p>		
<p><b>Principle C</b>  <b>Defining outcomes in terms of sustainable economic, social, and environmental benefits.</b></p>	1. Defining outcomes	<ul style="list-style-type: none"> <li>➤ The “Derby Plan 2030: A safe, strong and ambitious city” brings together the key partners across the city to promote: <ul style="list-style-type: none"> <li>○ Safe – a place where people are safe and the vulnerable are put first and supported;</li> <li>○ Strong – a place where people work together, can enjoy good health and wellbeing throughout their life and feel that they belong to a thriving community;</li> <li>○ Ambitious – a place where we support our children and young people to achieve their full potential, skills are valued, jobs and businesses are growing and we have the infrastructure to create a city for the future.</li> </ul> </li> </ul>

Governance Principle	Sub-Principle	Assurance on Compliance
		<ul style="list-style-type: none"> <li>➤ Delivery of partnership priorities through partnership boards and strategies (for example Health and Well-being strategy, Children and Young People’s Plan). <a href="https://www.derby.gov.uk/council-and-democracy/vision-derby/working-in-partnership/">https://www.derby.gov.uk/council-and-democracy/vision-derby/working-in-partnership/</a></li> <li>➤ The Council Plan 2016-2019 describes our priorities, resources and how we will monitor progress, with our annual Council Delivery Plan making sure that we are focused on current priorities. A refreshed Council Plan 2020-2023 has been agreed by Cabinet on 10 June 2019.</li> <li>➤ Production of an annual report to publicise and provide evidence to the local community on its achievements and progress made in delivering its Council Plan priorities and demonstrating value for money. <a href="https://www.derby.gov.uk/council-and-democracy/vision-derby/annual-report/">https://www.derby.gov.uk/council-and-democracy/vision-derby/annual-report/</a></li> <li>➤ Improved pre-decision scrutiny through the Executive Scrutiny Board (ESB) means that recommendations from ESB are now received at every meeting of Cabinet so as to ensure greater degrees of effectiveness and challenge to the Cabinet’s decision making.</li> <li>➤ A more robust Medium Term Financial Plan (MTFP) which aligns available resources to the activities of the Council and setting out the financial plans for the future.</li> </ul>
	2. Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> <li>➤ Business plans have been agreed which include clear objectives, measures and risks that are actively managed during the year and inform the setting of individual ‘Managing Individual Performance’ (MIP) objectives. For 2019/20, MIP has been replaced by ‘Great Performance Conversations’ led by the Chief Executive.</li> </ul>
<b>Principle D</b> <b>Determining the interventions necessary to optimise the achievement of the intended</b>	1. Determining interventions	<ul style="list-style-type: none"> <li>➤ Corporate Performance Board, chaired by the Director of Policy and Performance, has met monthly since its inception by Corporate Leadership Team in September 2018.</li> <li>➤ Review and challenge through directorate leadership team (DLTs) led</li> </ul>

Governance Principle	Sub-Principle	Assurance on Compliance
<b>outcomes.</b>		<p>Improvement Boards in key areas and 'Mocksted' reviews where appropriate.</p> <ul style="list-style-type: none"> <li>➤ Quality assurance - examples of good practice exist at service level e.g. Children's Services.</li> <li>➤ Regular challenge from inspectorates such as Ofsted and Care Quality Commission (CQC). We received a 'Good' rating from Ofsted for our Youth Offending Service in June 2018, and an inspection of our multi-agency working took place in March 2019 (though the Joint Targeted Area Inspection framework), with narrative feedback evidencing the progress that we have made and further priorities for improvement across the local area. Annual Conversations with Ofsted make sure that progress of our services is tracked and challenged in between inspections.</li> <li>➤ Sector Led Improvement (SLI) challenge from regional peers in Children's and Adults' services.</li> <li>➤ Active Executive Scrutiny performance forward plan focused on Council Scorecard / Council Plan outcomes.</li> <li>➤ Performance and Risk</li> <li>➤ Surgeries are held to evidence challenge and drive improvements. During 2018/19, there have been three Performance Surgeries and two Risk Surgeries.</li> </ul>
	2. Planning interventions	<ul style="list-style-type: none"> <li>➤ Performance, audit, risk and finance information is used to identify areas of concern and plan required interventions.</li> <li>➤ There is an annual cycle of meetings that are planned through the municipal year, but internal procedures are flexible enough for Councillors to intervene, such as via call in or the calling of extraordinary meetings, at any point in the year.</li> </ul>
	3. Optimising achievement of intended outcomes	<ul style="list-style-type: none"> <li>➤ Outcomes are monitored on a regular basis and open to scrutiny. Matters which are formally project managed are required to be reported upon to the project teams at regular intervals. The performance framework ensures capacity is considered in balancing priorities against affordability and social</li> </ul>

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		<p>value.</p> <ul style="list-style-type: none"> <li>➤ Service planning and objectives within the Managing Individual Performance system respectively set the objectives for the year for services and individual members of staff and the outcomes of these are reviewed regularly.</li> <li>➤ A Corporate Project Management Framework is in place. In September 2018, a Programme Management Office (PMO) was established by the Chief Executive to provide oversight of project delivery and benefits realisation.</li> <li>➤ A Gateway process for project decision making was launched in March 2019, managed through a new PMO Board.</li> <li>➤ Our Corporate Leadership Team has strategic oversight of major issues affecting the Council with a tightly managed forward plan.</li> </ul>
<p><b>Principle E</b>  <b>Developing its capacity, including the capability of its leadership and the individuals within it.</b></p>	<p>1. Developing the entity's capacity</p>	<ul style="list-style-type: none"> <li>➤ The Head of Paid Service is responsible for the organisation of the staff.</li> <li>➤ A Senior Management Restructure was completed during the year following a significant £0.5m investment. Key appointments were made in Human Resources and Organisational Development, IT, Legal, Procurement and Democratic and Property Services. A new Director of Financial Services is starting with us in August 2019.</li> <li>➤ We use a Managing Individual Performance (MIP) system which comprises of the development of objectives and personal development plan through which every member of staff has a clear direction for the year against which they are appraised. This identifies strategic and operational objectives, alongside the role profiles for each post and for development capacity. The process also involves appraisal by way of regular reviews of performance of those objectives including formal mid-year and end of year reviews. The end of year review and contribution rating awarded is indicative of how well each member of staff is performing. For 2019/20, MIP has been replaced by Great Performance Conversations.</li> <li>➤ Development and monitoring of workforce development plans.</li> </ul>
	<p>2. Developing the</p>	<ul style="list-style-type: none"> <li>➤ We have a programme of training available for both Councillors and Officers</li> </ul>

Governance Principle	Sub-Principle	Assurance on Compliance
	capability of the entity's leadership and other individuals	<p>(at all levels).</p> <ul style="list-style-type: none"> <li>➤ All new starters are required to undertake an induction programme. This has been reviewed and reinvigorated during the year, led by the Chief Executive and Leader of the Council.</li> <li>➤ There is mandatory training for all staff on key policies via the e-Learning system.</li> <li>➤ Professional members of staff are required to undertake additional training requirements (continuing professional development) as set by their professional bodies.</li> </ul>
<p><b>Principle F</b>  <b>Managing risks and performance through robust internal control and strong public financial management.</b></p>	1. Managing risk	<ul style="list-style-type: none"> <li>➤ Our Risk Management Policy, Strategy and Handbook was reviewed and updated in March 2018. Considerable work has taken place during the year to embed the framework more consistently across the organisation.</li> <li>➤ Risk management training has been rolled out to managers, senior officers, Cabinet and members of the Audit &amp; Accounts Committee.</li> <li>➤ A Corporate Risk Management Group has been established, chaired by the Strategic Director of Corporate Resources, with Risk Champions identified in all directorates.</li> <li>➤ Risks are regularly monitored on a corporate, departmental and service basis and this process has been reviewed in 2018/19.</li> <li>➤ Audit &amp; Accounts Committee receive quarterly monitoring reports on the strategic risk register and can commission risk surgeries to explore key risks in more detail, for example, MTFP (Jan 2019).</li> </ul>
	2. Managing performance	<ul style="list-style-type: none"> <li>➤ Principal performance targets are captured within our Performance management system (DORIS) and are subject to review (including Council Delivery Plan, Council Scorecard and Departmental business plans).</li> <li>➤ Individual projects have their own targets and performance reviews set within them and are reported via the projects teams as required. Projects are tracked through the Programme Management Office (PMO) Corporate</li> </ul>

Governance Principle	Sub-Principle	Assurance on Compliance
		<p>Dashboard and reported to PMO Board.</p> <ul style="list-style-type: none"> <li>➤ Performance management is reported on a quarterly basis to the Cabinet, the Corporate Leadership Team and Executive Scrutiny Board.</li> </ul>
	3. Robust internal control	<ul style="list-style-type: none"> <li>➤ Preventative procedures are in place which include the segregation of duties, approval/authorisation process, security of assets and regular reconciliations</li> <li>➤ Assurance is gained through regular internal audits and reporting.</li> <li>➤ Our Internal Audit Service has received an independent external review which ensured the service conforms with the Public Sector Internal Audit Standards (PSIAS)</li> </ul>
	4. Managing data	<ul style="list-style-type: none"> <li>➤ We have in place a suite of Information Governance Policies and Procedures that are monitored by the Information Governance Team.</li> <li>➤ We have senior officers who fulfil the roles of the Senior Information Risk Owner and the Caldicott Guardian.</li> <li>➤ All officers and Councillors are required to undertake mandatory e-Learning training on information governance.</li> <li>➤ The importance of reporting breaches of Data Protection legislation is well publicised.</li> </ul>
	5. Strong public financial management	<ul style="list-style-type: none"> <li>➤ We have a budget setting process with the Budget and Medium Term Financial Plan decided annually by Council.</li> <li>➤ The Finance Strategy sets the overall direction for how we will fund our activities and invest in the future.</li> <li>➤ We have in place a statutory Section 151 Officer with finance teams that support the budget holders.</li> <li>➤ Financial Procedure Rules and Contract Procedure Rules are in place and regularly updated.</li> </ul>
<b>Principle G</b> <b>Implementing good practices in transparency, reporting,</b>	1. Implementing good practice in transparency	<ul style="list-style-type: none"> <li>➤ Agendas for all Council meetings are publically available on website</li> <li>➤ We comply with the local Government Transparency Code 2015, publishing required information at <a href="https://www.derby.gov.uk/council-and-democracy/open-data-and-freedom-of-information/open-data-">https://www.derby.gov.uk/council-and-democracy/open-data-and-freedom-of-information/open-data-</a></li> </ul>

Governance Principle	Sub-Principle	Assurance on Compliance
<b>and audit to deliver effective accountability.</b>		<p><a href="#"><u>transparency/</u></a></p> <ul style="list-style-type: none"> <li>➤ We comply with The Openness of Local Government Bodies Regulations 2014.</li> <li>➤ We have a Whistleblowing Policy in place.</li> </ul>
	2. Implementing good practices in reporting	<ul style="list-style-type: none"> <li>➤ We have in place comprehensive procedures for the making of decisions, either by Full Council, Committee, Cabinet or individual decisions made by Directors and Cabinet Members.</li> <li>➤ All reports are taken through Democratic Services and require clearance by legal and finance as a minimum.</li> <li>➤ Reports for Council, Committees and Cabinet business and minutes of these meetings are available on our website, save for reports which contain information that is exempt from publication.</li> </ul>
	3. Assurance and effective accountability	<ul style="list-style-type: none"> <li>➤ The Constitution sets out the executive arrangements and the roles and responsibilities of the Leader of the Cabinet, the Cabinet and each of the Cabinet Members individually and the roles and responsibilities of other Council Members.</li> <li>➤ The Constitution sets out the functions of Council, Cabinet and the various committees.</li> <li>➤ We have an effective Scrutiny function with a number of Scrutiny Committees whose responsibilities are also set out in the Constitution.</li> <li>➤ The principal roles and responsibilities of the Chief Executive and senior officers, including the Chief Financial Officer (Section 151 Officer) and the Monitoring Officer, are also set out in the Constitution.</li> </ul>

## What specific assurances do we receive?

Whilst a number of assurances have been obtained to support this conclusion, it is important that we consider the following specific assurances to support this statement:

### 1. Chief Financial Officer (Section 151 Officer)

The CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government (2016) demands that assurance is provided on a number of governance arrangements relating to the organisation including financial control, reporting, the approach to decision making, compliance with relevant codes and the influence of the CFO within the organisation. These have been considered within the context of this Statement and it has been established that our arrangements conform to the CIPFA requirements and the Section 151 Officer has no significant concerns.

### 2. Monitoring Officer

The Monitoring Officer is required to report to the Council in any case where it appears that any proposal, decision or omission by the authority has given rise to or is likely to or would give rise to any contravention of any enactment, rule of law or code of practice or maladministration or injustice in accordance with Sections 5 and 5A of the Local Government and Housing Act 1989; (LGHA 89). These have been considered within the context of this statement and the Monitoring Officer has no significant concerns to report.

### 3. Head of Internal Audit

In accordance with the Accounts and Audit Regulations 2015 and the Public Sector Internal Auditing Standards (PSIAS), the Chief Audit Executive (DCC's Head of Internal Audit) provides an opinion on the overall adequacy and effectiveness of our risk management, internal control, counter fraud and governance processes.

The Chief Audit Executive is satisfied that sufficient work has been undertaken to allow him to draw a reasonable conclusion on the adequacy and effectiveness of our arrangements. Based on the work performed during 2018/19 and other sources of assurance, the Chief Audit Executive has provided the following opinion on our risk management, internal control, counter fraud and governance processes, in operation during the year to 31 March 2019:

*Based on the work undertaken during the year, I have reached the overall opinion that there is an **Adequate System of Internal Control Subject to Reservations** – A number of*

*findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.*

Full details on the assurance provided by the Chief Audit Executive are detailed within the Internal Audit Annual Report for 2018/19.

Under the Public Sector Internal Audit Standards (the Standards), we are required to undertake a review of the effectiveness of our Internal Audit function and to report the results in the Annual Governance Statement. An independent assessment against the Public Sector Internal Audit Standards must be carried out every five years. The last independent assessment was undertaken in September 2017 when it was identified that our internal audit service was conformant with the Standards and the five principles that define the core activities and behaviours that belong to the role of the Head of Internal Audit in Local government (CIPFA publication).

## **Governance issues that we faced**

Significant progress has been made since the Section 24 Report issued by the External Auditor in June 2017, and we continue to make improvements to our financial systems and control environment. The Section 24 Action Plan has been signed off by the Audit and Accounts Committee and we received an unqualified opinion on its 2017/18 Accounts in August 2018.

We have also addressed the recommendations made by the Local Government Association (LGA) as part of its corporate peer challenge held in June 2017. A follow-up review was completed in November 2018 which evidenced positive progress through the Council's Corporate Improvement Plan.

## **What were the key governance issues arising in 2018/19?**

The key governance issues to be reported are:

### **A52 Wyvern Transport Improvements scheme**

The major governance issue in 2018/19 was the significant overspend on the A52 Wyvern Transport Improvements scheme. The internal investigation report, and the subsequent systems weakness report, by the Central Midlands Audit Partnership (CMAP) into the problems with the A52 project, detailed that there had been comprehensive failings and weaknesses from the outset of the scheme and over a most of the period since.

The 2017/18 Statement made reference to the emerging problems on the A52 project following a report to Cabinet on 13 June 2018. This report raised concerns that since the main project works started on site in October 2017, there had been very significant unforeseen cost increases in relation to the works carried out to date, and it was forecast that there will be further cost increases before the project was completed.

CMAF was requested to investigate and report back on:

- the appropriateness of the design;
- the appropriateness of the framework and contractor;
- accuracy of cost estimates and verification of costs and works;
- project management arrangements;
- governance arrangements in respect of approvals;
- governance and reporting arrangements for monitoring contract performance and delivery.

The investigation was wide-ranging and complex in nature. The findings were formally reported to the Chief Executive Officer (CEO) in January 2019.

In December 2016, Cabinet approved the start of the Scheme and we entered into a contract with Galliford Try for delivery of the works. Scheme costs were expected to be £14.906 million. As documented in the 2017/18 AGS, since the main works started in October 2017, there has been a significant increase in costs. The cost of the Scheme was increased to £17.063m in March 2018. When further significant overspends were identified in May 2018, we considered termination of the contract and cessation of the project, but this would have incurred significant termination costs and the risk of financial clawback. There would have been further reputational impact and a potential jeopardising of future funding bids. The benefits of the Scheme would also not have been delivered. Therefore, on 13 June 2018 Cabinet agreed to allocate a further £7.65m increasing the overall cost to £24.713m, to enable continuation of the Scheme.

At the point that the audit report was issued the cost of the Scheme was estimated at £33m, for which approvals were secured from Cabinet on 12 September 2018. Since then, further work indicates that estimated costs are higher still at approximately £42m. This will require further Cabinet approval (this was given by Cabinet in April 2019).

The internal audit investigation report identified a series of weaknesses, which can be summarised as follows:

- This was a poorly conceived and costed project;
- There were weak governance, risk management, financial management and project management arrangements;
- Contract management within the Council was inadequate;

- Issues were not appropriately escalated to more senior officers and councillors;
- There was insufficient oversight and challenge by line management; and
- There is evidence of inadequate officer leadership.

There were problems with the Scheme from the start, due to not having sufficiently mature designs in place when letting the contract and an over-optimistically low budget for the works; this project was never going to cost £14.9m. This was compounded by placing unreasonable reliance solely on one individual officer for defining and checking detailed designs and specifications. There was also insufficient challenge to initial and subsequent costings and inappropriate de-scoping of works. Issues were not escalated and there was insufficient management oversight and grip.

We took immediate action to address the governance issues within the A52 Project when the issues materialising became widely known in May 2018. A Strategic Board was set up to oversee the project and has met monthly since July 2018. The Board has formal agendas and documentation, appropriately circulated in advance. The Board comprises relevant individuals from within and external to the Council. **The delegated approval limits for the project were reviewed and updated in Autumn 2018.**

In the autumn of 2018, the CEO took steps to improve our project management by establishing a corporate Programme Management Office to focus on strengthening project and programme management. This development will be picked up in more detail in the next section.

**To supplement the investigation report, Internal Audit produced a systems weakness report which was issued in June 2019. This covered the control issues relating to both the A52 Scheme (21 recommendations) and the wider corporate weaknesses (32 recommendations). Substantial progress has been made on implementation of recommendations in both areas.**

**Cabinet received an update on the progress of the scheme at its meeting on 10 April 2019. It was reported that significant staff resources have been committed to the Project, which has a planned completion by the end of the Summer 2020. Information on the scheme's progress is updated regularly on the Council's website and information is reported via social media where appropriate. Further progress will be reported to Cabinet as part of the delivery of the remaining elements of the Project.**

### **Long Term Waste Management Contract**

Following the failure of RRS (Derbyshire) Limited to meet the New Waste Treatment Facility (NWTF) Completion Longstop Date (30 September 2018) the City and County Councils have commenced the process of terminating the Project Agreement under the Contractor Default Termination provisions. The Project Agreement is based on HM Treasury SOPC4 Standard Drafting and therefore on termination it is likely that compensation will be payable by the

Councils to RRS (Derbyshire) Limited based on the fair value of the contract. Determination of this sum could lead to a formal dispute between the parties and the funders; the sum could range between £0 and £195m and work is ongoing to determine what the likely compensation sum will be based on the current and future performance of the NWTF.

### **Rating Relief - University Hospital of Derby and Burton NHS Foundation Trust v Derby City Council**

This is the test case in a group action/defence brought by 20 NHS Foundation Trusts against 49 rating local authorities for 6 years' worth of NNDR paid by them to the rating authorities; on the basis that they are charities and entitled to 100% rating relief, which they allege the rating authorities have denied them.

The **University Hospital of Derby and Burton NHS Foundation Trust** claim has been chosen as the test case because the claim against us represents the single most significant debt (£17.6m). The rating authorities' class defence is being managed by the LGA. Directions were given in November 2018 setting the matter down for a 3-day trial in early November 2019.

## **What were the key governance developments made in 2018/19?**

- Our decision-making governance structure is presently subject to review. Councillors expressed an intention to give serious consideration to the Council adopting the 'committee system' of decision-making from May 2019, with a majority of those voting at the Council Meeting in February 2019 minded towards its implementation during 2019/20. A cross-party working group has been established to explore adopting a committee system and the option to move to four yearly elections.
- A more effective Audit & Accounts Committee by providing more support and better quality reporting, led by the Head of Internal Audit. A new Chair and Vice Chair together with a refreshed committee was approved by Full Council on 23 May 2018. The Committee has been enhanced by the addition of two independent members.
- **In September 2018 Audit and Accounts Committee introduced Risk Surgeries to explore areas of strategic risk in more detail. Risk surgeries were undertaken on two strategic risks - Medium Term Financial Plan (MTFP) in January 2019 and Procurement and Contract Management in April 2019. The risk surgeries give those Councillors attending the opportunity to be briefed on specific risk related issues and to improve their understanding of how risks are managed. The risk surgeries assess how strategic risks are mitigated, review action plans and help create ownership and accountability for risk management and organisational governance.**
- During 2017/18, the three statutory officers all left the Council. We entered 2018/19

with an acting Chief Executive, an interim s151 Officer and an interim part time Monitoring Officer. During 2018/19, the following appointments were made:

- A new Chief Executive and Head of Paid Service commenced in the role on 1 August 2018.
- The Interim Strategic Director of Corporate Resource (the Council's s151 Officer) was made permanent until 31 July 2019 to ensure continuity.

Recruitment to a new Director of Legal, Procurement and Democratic Services and Monitoring Officer role resulted in no appointment being made. The Interim Monitoring Officer (MO) left the Council on 31 January 2019. The post is currently being filled on an "acting up" basis.

- Diagnostic and Team Derby Plan – an organisational diagnostic was commissioned by the new Chief Executive during the autumn of 2018. This was an evidence based review covering the strengths, weaknesses, opportunities and threats across four domains (city, communities, council and colleagues). The Team Derby Plan has been developed to take forward a number of priorities for improvement (for example, raising the city's profile and leadership of place, streamlining our processes through lean reviews and greater use of technology, leadership development and cultural change).
- Corporate Core – consists of three teams (Policy & Insight, Communications & Marketing and a change management team – 'Delivering Differently') under the direct leadership of the CEO. The objective is to provide strong oversight, advice and corporate grip.
- PMO – part of Corporate Core, the Programme Management Office was established in September 2018 to provide greater oversight of key projects through tracking of key projects, regular monitoring of deliverability confidence assessments (DCAs) and the review of decision making for major projects via a Gateway process.
- Counter Fraud Team - The introduction of the Counter Fraud Team in January 2017 has increased our resources to investigate fraud and strengthen our anti-fraud stance. We are pro-active in our approach to tackling fraud and reducing fraud risk. Fraud awareness training continues to be delivered to staff. The Counter Fraud Team has initiated the East Midlands Fraud Group, a forum for partners in neighbouring authorities and partner organisations to meet, share best practice, identify fraud trends and upcoming risk areas. The Team continues to work with departments to identify and minimise fraud risks. For example a recent review of supported exempt accommodation has resulted in a process being developed to strengthen initial checks and prevent fraud entering the process. As part of our commitment to reduce fraud risk the Counter Fraud Team work jointly with the Department for Work and Pensions Single Fraud Investigation Service and Organised Fraud Team.
- Prevention and Detection of Fraud - We seek opportunities to detect fraud. Recently Internal Audit and the Counter Fraud Team volunteered to participate in the National Fraud Initiative data-matching pilots for Business Rates and HMRC matches. In

addition the Council elected to participate in Social Care matches. These activities have been key to enable us to identify areas where fraud risks can be reduced. Internal audit and the Counter Fraud Team liaise closely to discuss fraud risks and identify possible fraudulent activity. Internal audit and the Counter Fraud Team have been testing a software application designed to identify fraud across a series of datasets held by the National Fraud Initiative.

## **Progress on Improvement Areas Arising from previous Annual Governance Statements**

There were several governance issues raised in the 2017/18 Annual Governance Statement:

- s24 Local Audit & Accountability Act 2014 – The action plan was closed off as being delivered in full by the Audit and Accounts Committee in March 2018. However, the Committee has now received independent assurance from Internal Audit that the controls have been embedded as part of the routine financial reporting process.
- Risk Management – We procured the services of a risk management consultant from Zurich Municipal to review our risk management framework and to provide an overhaul of Risk Management Policy, Strategy and Handbook, specific risk training and a refresh of the strategic risk register. Significant progress has been made in embedding the risk framework lead by the Corporate Risk Management Group with quarterly updates to Audit & Accounts Committee.
- Issues arising from the Local Government Association (LGA) Corporate Peer Challenge (June 2017) – eleven recommendations were made which were being addressed through the Corporate Improvement Plan. <https://www.derby.gov.uk/council-and-democracy/performance/external-assessments/> Key issues related to partnership working, management capacity and member / officer working relationships. Significant progress has been made through the Corporate Improvement Plan, as evidenced by LGA in their follow-up review held in November 2018.

## What are our key governance development priorities for 2019/20?

- Council Plan 2019-23 – Council Cabinet is expected to approve a new Council Plan on 12 June 2019. The document sets out an updated vision, priority themes and areas of focus which are underpinned by our values. It will provide a framework for resource allocation through our Medium Term Financial Plan and provide clear deliverables for local citizens. A Council Delivery Plan is expected to be approved in July 2019.



- Given the significant issues within the A52 project, there is a need to review the governance arrangements in place for all high value capital projects and to assess the governance and controls around how the Council manages and delivers such projects. The key focus of the 2019/20 Internal Audit Plan will be around contract governance. **To provide this independent assurance, internal audit has planned to review the following key projects above £5m:**
  - Swimming Pool;
  - Assembly Rooms (Performance Venue);
  - OCOR; and
  - Market Hall.

**There is also follow up work planned on the A52 scheme.**

- Team Derby engagement framework – the Chief Executive has launched a new engagement framework including Directors Forum (monthly), Senior Leaders Network (bi-monthly) and Managers Conference (quarterly) to improve communication, empower leaders and drive change.

- HR Strategy – we have reviewed our HR strategy and are taking action across a number of areas including colleague engagement, celebrating success, refresh of our values and leadership behaviours and launch of Great Performance Conversations. We will expect to embed these changes during 2019/20.
- Digital by Default/Digital Workforce – part of the Team Derby plan, we are looking to maximise the use of technology and improve customer experience through focused digital reviews.

## Areas for Improvement

Whilst we are satisfied that we have the appropriate governance systems and processes in place and these generally work well, we have identified some areas for improvement or where further governance oversight is needed.

<b>Key Improvement Area</b>	<b>Lead Officer</b>	<b>To be delivered by</b>
Independent assurance from Internal Audit on governance of contracts	Head of Internal Audit	Ongoing through to late 2019
Framework for producing the Annual Governance Statement	Strategic Director of Corporate Resources (as Chair of the Governance Working Group)	31 December 2019

## Assurance Opinion

Our governance framework has been under close scrutiny since 2015/16.

The formal review of the governance arrangements across the Council and overall compliance with our Local Code of Corporate Governance has been informed by internal assessment and the work of external audit and the Corporate Peer Challenge.

The Council has acted positively to the governance issues previously raised in the Report in the Public Interest, the s24 Recommendation and the Corporate Peer Challenge. We have made, and will continue to make, improvements to our governance framework to ensure it is fit for purpose. However, governance around key projects is an area for concern.

We are satisfied that this statement allows us to meet the requirements of the Accounts & Audit (England) Regulations 2015 - to prepare an annual governance statement to accompany the 2018/19 Annual Statement of Accounts.

Councillor Christopher Poulter  
Leader of the Council

Carole Mills  
Chief Executive

July 2019  
Signed on behalf of Derby City Council