

GOVERNANCE COMMITTEE: 28 JUNE 2010

SUBJECT: ANNUAL GOVERNANCE REVIEW 2009/2010

**JOINT REPORT OF THE CHIEF FIRE OFFICER, CLERK TO THE AUTHORITY,
THE FINANCE OFFICER AND PERSONNEL ADVISOR**

1 INTRODUCTION

1.1 The purpose of this report is to provide details of the findings of the 2009/2010 Annual Governance Review and seek approval to the Annual Governance Statement, prior to its incorporation in the Statement of Accounts.

2 BACKGROUND

2.1 In 2001 the Society of Local Authority Chief Executive's (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) jointly published '*Corporate Governance in Local Government: A Keystone for Community Governance Framework and Guidance Note*'. In line with the guidance contained in this document the Authority introduced its first local Code of Corporate Governance (the Code), which was approved by Members in 2003.

2.2 Annual reviews of the Code have taken place to ensure that it remains up to date and effective. Minor updates to the Code have also been carried out to address any issues identified during the reviews. The Code was last updated in June 2009.

3 THE REVISED FRAMEWORK: DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT

3.1 In 2004, the Independent Commission on Good Governance in Public Services and the Chartered Institute of Public Finance and Accountancy (CIPFA), in partnership with the Joseph Rowntree Foundation, published a set of common principles that it would wish all public sector organisations to adopt. The commission recommended a common governance standard for public services similar to the private sector's Combined Code, namely the Good Governance Standard for Public Service. This builds on the existing principles for the conduct of individuals in public life by setting out six core principles that should underpin the governance arrangements of all bodies.

The principles are:

- a clear definition of the body's purpose and desired outcomes;
- well-defined functions and responsibilities;
- an appropriate corporate culture;
- transparent decision making;
- a strong governance team;
- real accountability to stakeholders.

2.2 Further to this, in June 2007, SOLACE/CIPFA issued a new framework and associated guidance on corporate governance, entitled 'Delivering Good Governance in Local Government'. In the new framework, these six core principles have been adapted for the local authority context. The principle of leadership has been developed to emphasise the role of authorities in 'leading' their communities and therefore this concept 'overarches' the other principles.

2.3 The framework identifies four key roles of a local authority, as follows:

- To engage in effective partnerships and provide leadership for and with the community;
- To ensure the delivery of high quality local services whether directly or in partnership or by commissioning;
- To perform a stewardship role which protects the interests of local people and makes the best use of resources;
- To develop citizenship and local democracy.

2.4 These four roles are to be borne in mind when considering the six core principles of good governance, as defined in the framework:

- Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

- 2.5 The framework does advocate that, in order to review current arrangements, authorities should take the following steps:
- Consider the extent to which the authority complies with the principles and requirements;
 - Identify systems, processes and documentation that provide evidence of compliance;
 - Identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified;
 - Identify the issues that have not been addressed adequately in the authority and consider how they should be addressed;
 - Identify the individuals who would be responsible for undertaking the actions required and plan accordingly.
- 2.6 The framework document is intended to be followed as best practice for developing and maintaining a local code of corporate governance and for discharging accountability for the proper conduct of public business through the publication of an Annual Governance Statement (AGS), and the Authority is now required to publish its third AGS with the 2009/2010 Statement of Accounts.
- 2.7 The CIPFA Finance Advisory Network has also issued detailed practical guidance on meeting the requirements of the AGS. The AGS must be supported by a comprehensive assurance gathering process and as a result of this the Chief Fire Officer can confirm that an internal audit (undertaken during January to April 2010) of this process confirmed the arrangements in place were good.

4 2009/2010 ANNUAL GOVERNANCE REVIEW

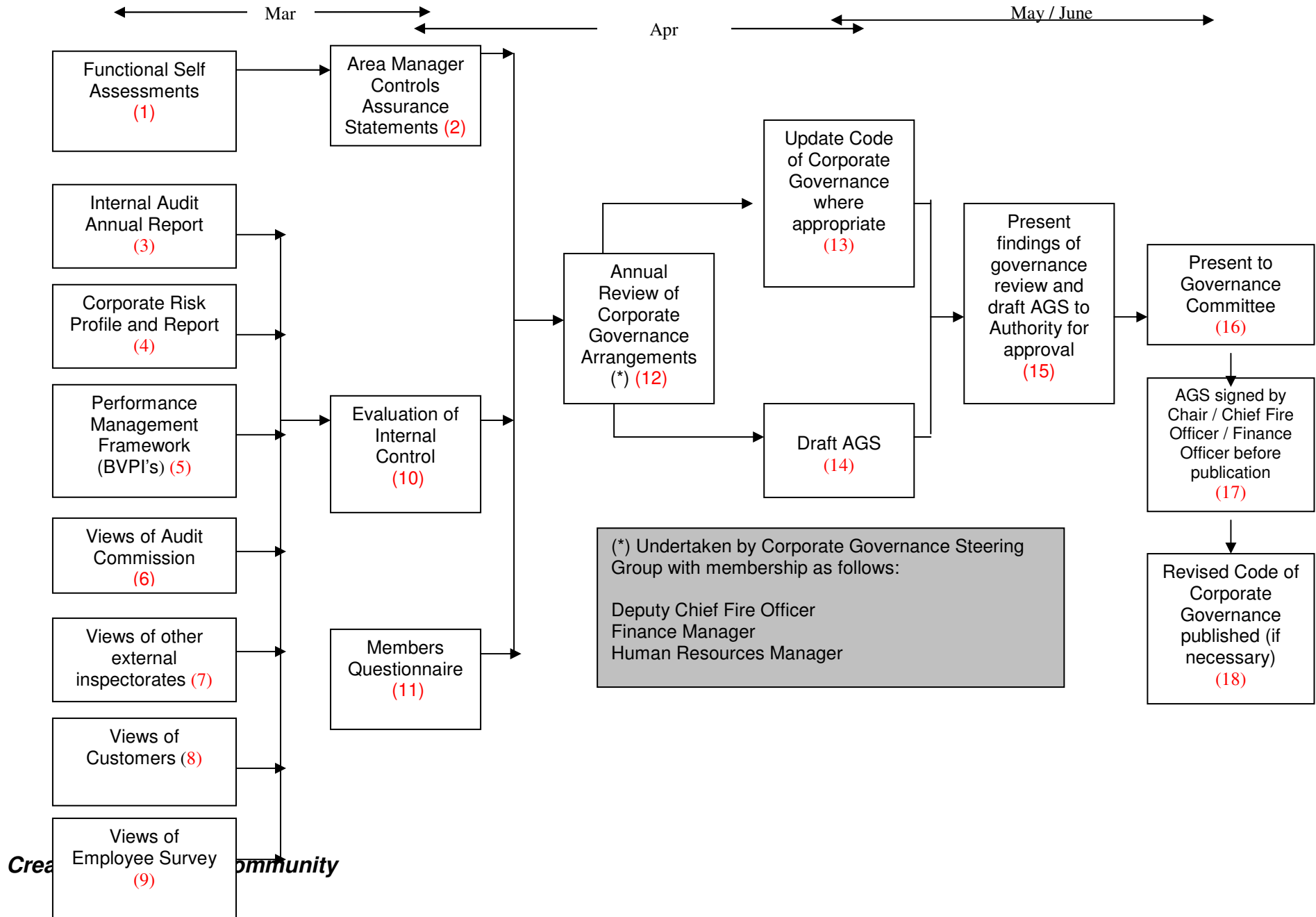
- 4.1 The review was undertaken by the Corporate Governance Steering Group whose membership is as follows:
- Deputy Chief Fire Officer ;
 - Finance Manager;
 - Human Resources Manager.

4.2 The review followed the agreed methodology, which comprises the following stages:

- Completion of Functional Self Assessments (covering all areas);
- Completion of Area Manager Controls Assurance Statements;
- Completion of a Members Questionnaire;
- Completion of an Officer's questionnaire;
- Detailed analysis and evidencing of internal control arrangements;
- Undertaking a Corporate Governance Steering Group Review Workshop;
- Preparation of an Action Plan to address any issues identified, including revision of the local Code of Corporate Governance as required;
- Drafting an Annual Governance Statement and Governance Review Report and presenting this to the Strategic Management Team;
- Presenting the Annual Governance Statement and Governance Review Report to the Governance Committee;
- Presenting the Annual Governance Statement and Governance Review Report to the Fire and Rescue Authority; and
- Chair of Fire and Rescue Authority, Chief Fire Officer and Finance Officer to sign Annual Governance Statement.

The above stages are set out diagrammatically below.

PREVENTING PROTECTING RESPONDING



- 4.3 **Functional Self Assessments (1)** - Governance and control self-assessments were completed by all Area Managers. The self-assessments cover compliance with the existing Authority Code of Corporate Governance, as well as key internal control arrangements within each service, and require evidence to be sited in relation to each question, and any significant plans for improvement within their area to be recorded.
- 4.4 **Area Manager Controls Assurance Statements (2)** - Each Area Manager personally signed a Controls Assurance Statement having reviewed the information and views compiled through the self assessment process to come to an opinion on the governance arrangements and internal control environment within their areas of responsibility. The completed functional self-assessments and Controls Assurance Statements were then considered by the Corporate Governance Steering Group (The Group).
- 4.5 **Evaluation of Internal Control Arrangements (10)** - The Authority's internal control arrangements were assessed in line with guidance from CIPFA's Financial Advisory Network.
- 4.6 **Views of Elected Members (11)** - The views of all Elected Members were sought via a questionnaire. Responses were received from 8 Members (54% return) and these were considered by the Group.
- 4.7 **Annual Review (12)** - The Group considered all aspects of corporate governance and supporting documentation including the existing Code of Corporate Governance to identify the areas that need to be amended to bring the Code in line with the new framework. Consequently the Group were able to form a view on the adequacy of the Authority's overall governance arrangements for incorporation in the Annual Governance Statement

5 FINDINGS OF THE CORPORATE GOVERNANCE STEERING GROUP

- 5.1 Functional Self Assessments and Area Manager Controls Assurance Statements were examined to ensure that all documents had been completed in full and to identify any issues of significance.
- 5.2 It was noted that all Area Managers have identified some future plans for improvement to their governance and control arrangements. The future plans for improvement were summarised and issues highlighted to identify any which were significant in terms of the Authority's overall governance and control environment.

5.3 However, a large proportion of the future plans for improvement related to tasks which are already ongoing or which have already been included in existing service plans. In addition, a number of actions were included which were purely function based and not significant in terms of the Authority's overall governance and control environment. It was considered that none of the future plans for improvement are such that they would cause any concern regarding the adequacy of the current overall governance and control arrangements. Notwithstanding the above, some of the future plans for improvement are newly identified actions resulting directly from the annual governance review, which have corporate significance, and therefore have been included in the revised Code of Corporate Governance as actions to be addressed.

5.4 The Annual Internal Audit Report was considered by the Group and it was noted that the report indicates that the work undertaken during 2009/2010 did not identify any matters material to the overall control environment of the Authority. There is an agreed scheme in place for the audit of key financial and non-financial systems. Findings of audits of these systems this year were analysed with findings from previous years to enable an opinion to be formed on these systems.

One of the requirements of the Accounts and Audit (Amendment) (England) Regulations 2006 is for the Authority to have an independent review of the effectiveness of its system of internal audit once a year (in line with the CIPFA Code or Practice for Internal Audit), and for the findings of this review to be considered as part of the procedure for drafting the AGS. The review for 2009/2010 found that the internal audit provision continues to meet professional standards.

5.5 The Corporate Risk Profile was considered by the Group and of the 32 risks faced by the Authority (a reduction by 9 from the previous year), the following should be noted:

- Fourteen are now considered sufficiently significant to warrant close monitoring by the Corporate Risk Management Group, these will be subject to continual analysis and review during 2010/11;

Four risks are considered 'High Priority'.

The four high priority areas have been identified as follows:

1. Following the PFI provider going into administration, there is a risk to the delivery of the contracted services in the short and medium term.
2. Risk of a failure to effectively and safely deploy and manage operational staff and resources at incidents leading to staff and public being exposed to unnecessary risk.
3. Risk that we do not retain a fully effective local control centre (at West Denton) in the lead up to the transition to the new Regional Control Centre (RCC) resulting in poor quality emergency call handling and a detrimental effect on operations.

4. Wide scale and prolonged non-availability of staff (not related to industrial action) leading to a 50% reduction in personnel at work for up to 6-12 weeks and resulting in a depleted response to emergencies..

The Risk Manager has developed an action plan to manage and mitigate each risk. Where appropriate these actions have been included in the annual operating plans of the appropriate departments for action as necessary.

- 5.6 In addition, the Authority's performance management framework was considered with the main issues being:

- Improving performance through a range of improvement activities and evaluation to target specific risks;
- Improved understanding of performance and risk through partnership working to develop realistic targets and strengthen accountability at a local level;
- Further develop the linkages ("golden thread") between key objectives/key themes supported by District Plans and improved information systems;
- Reviewing and improving the Performance Management Framework to deliver the community safety agenda and provide value for money.

Plans are in place to address all of the above issues and none are considered significant in terms of the Authority's overall governance and control arrangements.

- 5.7 The Audit Commission's Annual Audit Letter was considered as this letter provides an overall evaluation of the Authority's progress having regard to the core performance assessment, financial and service performance and a consideration of its strengths and areas for development. The Letter notes the following key headlines:

The Authority has demonstrated strong performance across a number of the Key Lines of Enquiry (KLOE). In particular the Authority:

- Integrates financial and service planning, is well placed financially and maintains good budgetary control. There is a clear commitment to high quality financial reporting;
- Works well in partnership with others to contribute to wider community outcomes;
- Has a clear understanding of what skills and staffing levels are required to deliver service improvements, and invests accordingly. Effective processes are in place to manage sickness absence and prevent accidents at work;
- Communicates well with staff and partners, and has successfully managed significant organisational change whilst maintaining a highly motivated workforce;

- Collects comprehensive, accurate performance data; and
- Has good systems of governance and internal control.

The Authority has delivered significant efficiency savings in recent years. Real costs have fallen by 6% since 2004, and precept increases were the lowest of all fire authorities nationally in 2008/9 and 2009/10. The organisation is becoming much more successful at targeting resources where they are needed most, and evaluating the outcomes and improvements that have been delivered.

A small number of improvement areas have been identified which include the following:

- The cost and quality of back office functions has not yet been subject to review;
- The Authority provides little information to stakeholders and the public in relation to policies on sustainability and its environmental footprint; and
- Although there is a strong commitment to equality and diversity, with much improved female representation in the workforce, the Authority employs a very low proportion of minority staff.

It is considered that the Annual Audit Letter gives reassurance that the Authority's overall governance and control arrangements are satisfactory.

5.8 The key highlights below are taken from the findings from external audits undertaken during 2008/2009:

Overall, Tyne and Wear Fire and Rescue Authority Performs Well

Managing performance	3 out of 4
Use of resources	3 out of 4
Managing finances	3 out of 4
Governing the business	3 out of 4
Managing resources	3 out of 4

Description of scores:

1. An organisation that does not meet minimum requirements, Performs Poorly
2. An organisation that meets only minimum requirements, Performs Adequately
3. An organisation that exceeds minimum requirements, Performs Well
4. An organisation that significantly exceeds minimum requirements, Performs Excellently

Summary

The FRA has a clear vision of what it wants to achieve. Objectives are based on a sophisticated risk planning (IRMP) process, and good knowledge of local communities. This enables effort to be focussed where it can have maximum impact. The FRA's performance has consistently improved across all priorities in the last three years. There are many examples of the FRA working effectively with partners from the public, private and third sector to deliver successful outcomes and improvements. The FRA is operationally effective, and continually reviews its capacity and resources to improve outcomes. There is a formal strategy in place to ensure high levels of service, including a commitment to maintaining very quick response times to fires. This has a significant impact on the FRA's costs, and there is scope for a more detailed discussion with Members and stakeholders about this in the context of the FRA's response to 'Rising to the Challenge'. However, efficiency savings have exceeded Government targets. Real costs have reduced by 6% over the last five years, through reducing staff numbers and revising crewing levels. There has been significant investment in preventative work, using intelligence from partners to drive more accurate targeting of home safety checks, which are then delivered in partnership and often address multiple needs. Work with the voluntary sector to tackle arson and improve life chances for children and young people has achieved national recognition. Leadership is strong and effective. Members and officers work together to tackle difficult issues, and the FRA has appropriate levels of balances and reserves. There are no known capacity weaknesses or financial risks that would raise a concern about the future delivery of outcomes.

- 5.9 It is considered that the overall findings of the various audits are positive. The only area of significance is the Authority has made little progress so far in improving its performance in relation to workforce diversity, primarily minority ethnic people, however there were no issues which are significant in terms of the Authority's overall governance and control environment.
- 5.10 The Authority commissions a survey of user satisfaction with the latest showing that the public recorded a 97% and 98% satisfaction rate with regard to the services provided by the Authority (non domestic/domestic incidents respectively). This survey has been subsumed into a 'Place Survey' undertaken in conjunction with the five Local Authorities of Tyne and Wear in late 2008. The Authority also runs an on-going 'After the Incident Survey', the latest results of which recorded a score of 98 for user satisfaction.
- 5.11 The Authority undertakes a survey of the views of employees in relation to a range of issues on a regular basis. The latest employee survey indicated that:
- The majority of staff are satisfied with their job, their working environment, their working pattern, feel secure in their job and have better personal development opportunities than in 2005;
 - Employees felt that the three main priorities for TWFRS should be to listen to its staff, honesty and minimise bureaucracy;
 - 76% of staff have regular team meetings where they are given the opportunity to speak and find out what is happening in their department. 42% of staff feel that communications have improved since 2005;

- Over 95% of staff feel that the Authority provides a good service and over 69% feel that the Authority is responding to external changes.

5.12 A questionnaire issued to Members and Officers asked whether they felt that statements made in the existing Code of Corporate Governance were being met. All of the respondents were in full agreement that the statements in the Code were being met.

6 UPDATES TO THE CODE OF CORPORATE GOVERNANCE

6.1 It was also considered whether any updates or revisions to the Code of Corporate Governance are required, and agreed that the Code should be revised based upon the new SOLACE/CIPFA framework and guidance, "Delivering Good Governance in Local Government". An updated Code based upon the new guidance is attached at Appendix A for consideration and approval by Members.

7 ANNUAL GOVERNANCE STATEMENT

7.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review. The review has found that only minor improvements are needed to the control environment in a small number of areas. The Annual Governance Statement is attached at Appendix B for consideration and approval by Members.

8 CONCLUSION

8.1 The Authority has robust and effective governance and internal control arrangements in place. The views elicited during the review from Members and all senior managers across the Authority demonstrate that the principles of good governance are embedded.

8.2 The review has not identified any weaknesses that would need to be highlighted in the Authority's Annual Governance Statement.

8.3 A small number of actions have been identified to further develop governance and control arrangements, as detailed in the action plan attached at Appendix C.

9 RISK MANAGEMENT

9.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The assessment has considered an appropriate balance between risk and control; the realisation of efficiencies; the most appropriate use of limited resources; and a comprehensive evaluation of the benefits. The risk to the authority has been assessed as low utilising the standard risk matrix based on control measures being in place. The complete risk assessment is available on request from the Chief Fire Officer.

10 FINANCIAL IMPLICATIONS

10.1 All financial implications by virtue of this review are contained within existing budgetary headings.

11 EQUALITY AND FAIRNESS IMPLICATIONS

11.1 There are no equality and fairness implications in respect of this report.

12 HEALTH AND SAFETY IMPLICATIONS

12.1 There are no health and safety implications in respect of this report.

13 RECOMMENDATIONS

13.1 Members are requested to:

- a) Consider and comment upon the revised Code of Corporate Governance;
- b) Consider and comment upon the Annual Governance Statement and Improvement Plan;
- c) Receive further reports as appropriate.

BACKGROUND PAPERS

The under mentioned Background Papers refer to the subject matter of the above report:

- CIPFA/SOLACE Guidance - 'Delivering Good Governance in Local Government'