

MEETING: 11 JUNE 2012

SUBJECT: ANNUAL GOVERNANCE REVIEW 2011/2012

**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 2011/2012 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 2011.

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.

3.2 Further to this, in June 2007, SOLACE/CIPFA issued a revised framework and associated guidance on corporate governance, entitled 'Delivering Good Governance in Local Government'. In this 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.

3.3 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.

3.4 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.

- 3.5 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.
- 3.6 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 fifth AGS with the 2011/2012 Statement of Accounts.
- 3.7 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 audit (undertaken during January to April 2012) of this process confirmed the arrangements in place were good.

4 2011/2012 ANNUAL GOVERNANCE REVIEW

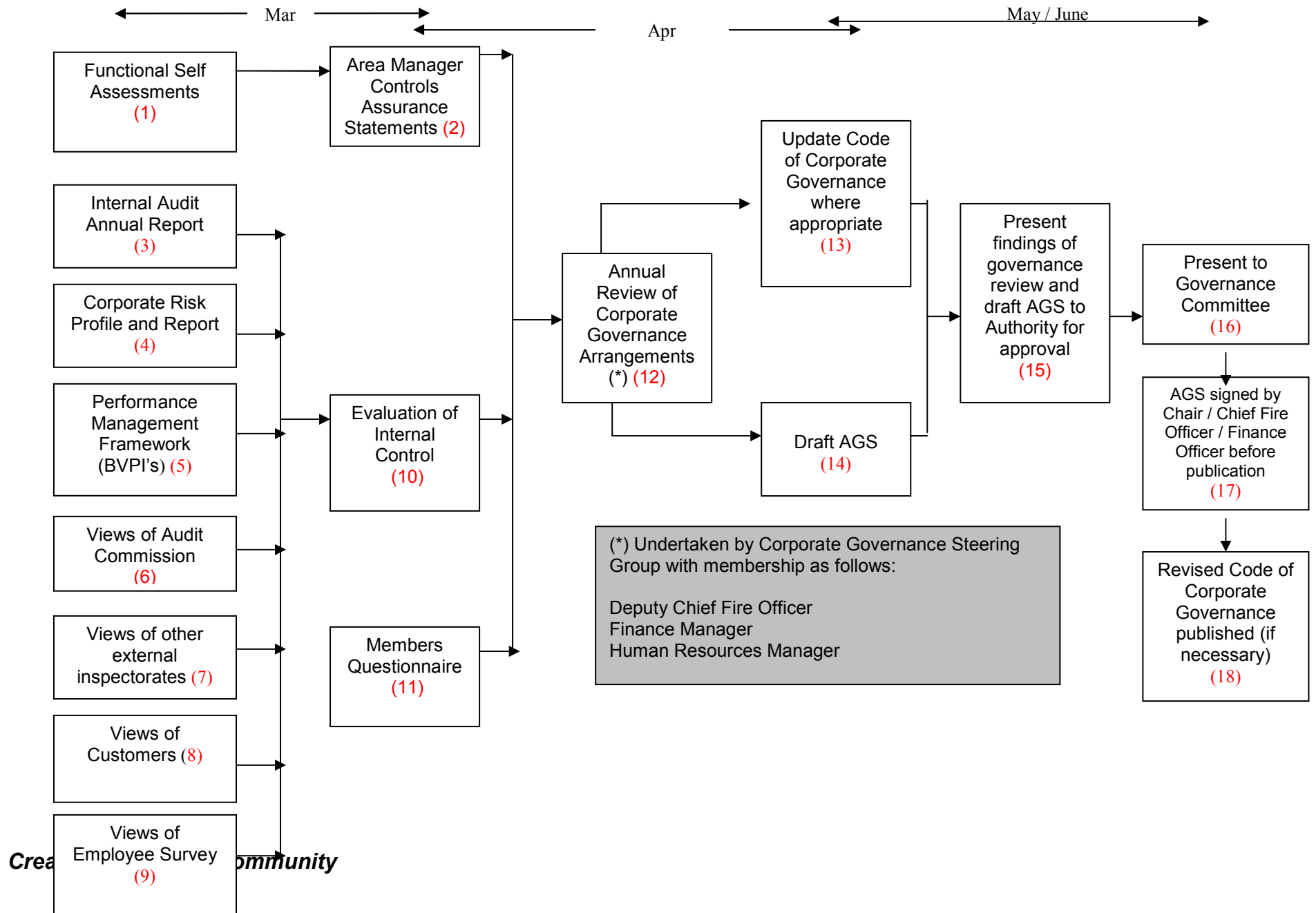
- 4.1 The review was undertaken by the Corporate Governance Steering Group whose membership is as follows:
- Deputy Chief Fire Officer ;
 - Finance Manager;
 - Human Resources Manager.

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 cited 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 10 Members (62.5% return which is a decrease from the 69% return of last year) 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. Members are asked to note that the process was subject to a review by internal audit this year who concluded that the arrangements in place were good.

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, the majority of change during the coming months is closely related to implementation of the back office reviews and therefore efforts are to be targeted towards embedding new teams and prioritizing workloads. One major action which will affect the Authority's future performance is the implementation of the new command and control system which is being closely monitored utilizing the Authority's project management protocols. In addition, 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. Further, 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 therefore 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 2010/2011 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.

5.5 The Corporate Risk Profile was considered by the Group and of the 24 corporate risks faced by the Authority, 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 2012/13;

Four risks are considered 'High Priority'.

The four high priority areas have been identified as follows:

1. Risk that further budget cuts will mean that we have to make decisions that will affect the delivery of front-line services from 2013/14.
2. 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 spending and/or policy decisions of one of our partners has a negative impact on our collaborative work and therefore a detrimental impact on the communities that we serve.
4. Risk that a spending decision of one of our partners has a detrimental impact on the delivery of some of our services, Safetyworks, Phoenix, Princes Trust, etc.

One new risk identified which is worthy of consideration is the risk that we do not realise the savings proposed in our IRMP resulting in reduced financial resilience and potential impact on service delivery. Although not considered a high risk based upon effective mitigation, this risk will be closely monitored during the coming months and years.

The Chief Fire Officer 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:

- Continue to improve performance through a range of improvement activities and evaluation to target specific risks;
- Continue to improve understanding of performance and risk through partnership working to develop realistic targets and strengthen accountability at a local level;
- Further embed the Performance Management Framework to improve delivery of 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 and Inspection 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 is well placed in terms of working balances and reserves, with a good track record of delivering to budget and making efficiency savings in excess of national targets.
- The Authority is facing a 25 per cent reduction in grant funding over the next three to four years. Strategic and financial plans have been reworked to deliver the necessary cost reductions whilst maintaining adequate levels of working balances and, so far as possible, avoiding compulsory redundancies.

- Reviews of back office services and property management are well underway. Successful partnership working and PFI schemes also deliver efficiencies.
- The key challenge for the Authority in coming months is to:
 - closely monitor delivery of the 2011/12 budget and take early action if budget savings are not being realised; and
 - monitor service delivery, especially emergency response and preventative work with vulnerable groups, to ensure that safety is maintained during a period of considerable uncertainty and change.
- The Government's regional control room project was abandoned in December 2010. The Authority's West Denton control room has some remaining operational capacity but this is limited and plans are in place to develop options for its replacement which are affordable in the current climate; compatible with existing technology; and deliver to service standards set out in the Integrated Risk Management Plan.
- The organization has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organization is prioritizing its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.
- Good governance arrangements are in place for partnership working. These include a regular appraisal of the costs and benefits of individual arrangements.
- At a more operational level, lower cost options have been considered and approved in relation to 'Safetyworks' and vehicle replacement. An efficiency log in each department gives all staff the opportunity to highlight potential savings. The Authority participates in benchmarking clubs and carries out detailed comparisons of costs, activity levels and performance.
- 2010/11 year end performance report confirms that all key improvement plans have been delivered; 50 per cent of key performance indicators have met their target and 91 per cent of these show improvement when compared to the prior year; and performance is now above metropolitan fire service average or better in all areas except the incidence of deliberate fires.

Inevitably there remains some scope for improvement. The Authority has the sixth highest expenditure per head of all fire authorities nationally and most of this money is directed towards front line activities. Back office and management costs as a percentage of the total budget are low and there is significant investment in community safety activities and partnership work.

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

- 5.8 The Authority commissions an on-going 'After the Incident Survey', the latest results of which recorded scores of 97 out of 100 and 99 out of 100 for user satisfaction with regard to the services we provide (non domestic/domestic incidents respectively). We also carry out satisfaction surveys on fire safety audits and our schools education programme.
- 5.9 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 (over 87%) are satisfied with their current role, their working environment, their working pattern, feel secure in their job and have better personal development opportunities than in previous surveys;
 - Employees felt that the three main priorities should be to deal with poor performers, minimise bureaucracy and further develop the promotion procedures;
 - 69% of staff have regular team meetings where they are given the opportunity to speak and find out what is happening in their department. 36% of staff feel that communications have improved since the previous survey.

Members are advised that the above results relate to a survey undertaken during 2009/10. An action identified during this review is that the survey needs to be repeated and this will be undertaken during the current financial year.

- 5.12 An information governance audit has recently been redone in 2010/11. Six actions were agreed at this audit and five have been fully implemented. Revised implementation dates have also been agreed for the outstanding recommendation.
- 5.13 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. Members also made the following observations:
- Respondents felt that the service have a very comprehensive strategic community safety plan in place to underpin the delivery of our services and the realisation and delivery of our vision.
 - Respondents feel that working arrangements between senior officers and members are clearly understood and that decision making is transparent with members being fully aware of protocols and declaration of interests.
 - Respondents feel that members have a very good understanding of the IRMP process and how they inform budgets.
 - Members feel that people with governance responsibilities receive very robust training to ensure that they develop the skills required to enable roles

to be carried out effectively, improve performance, effectively scrutinise and challenge and to recognise when expert advice is required.

- Members believe that members briefing sessions are very informative.
- Members feel that organisational values are put into practice and are effective and believe that this is embedded throughout the service as a whole

Members also suggested some areas for consideration which will be taken forward during Member briefing sessions:

- It was suggested that reporting of the Authorities activities should be carried out more often than annually, suggesting a half yearly interim report.
- There was an opinion that there should be 'more meet the public meetings' in relation to being accountable for ensuring a planned approach to appropriate service delivery.

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 current SOLACE/CIPFA framework and guidance, "Delivering Good Governance in Local Government". An updated Code 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 The Authority is requested to:

- a) Consider and comment upon the revised Code of Corporate Governance;
- b) Consider and comment upon the Annual Governance Statement;
- 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'