



Coventry City Council

Public report

Report to

Audit and Procurement Committee

22nd June 2015

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor Damian Gannon

Director approving submission of the report:

Executive Director of Resources

Ward(s) affected:

City Wide

Title:

Annual Governance Statement 2014-15

Is this a key decision?

No

Executive summary:

The purpose of this report is to seek approval for the Annual Governance Statement, which forms part of the Statement of Accounts for 2014-15.

Recommendation:

Audit and Procurement Committee is recommended to consider and approve the Annual Governance Statement (attached at Appendix One), which accompanies the 2014-15 Statement of Accounts.

List of Appendices included:

Appendix One – Annual Governance Statement 2014-15

Other useful background papers:

Annual Governance Statement 2013-14

<http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10218&Ver=4>

Has it or will it be considered by scrutiny?

No

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

Annual Governance Statement 2014-15

1. Context (or background)

- 1.1 Coventry City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility, the City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.2 To demonstrate such arrangements, the City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of effective governance as reflected in the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'.
- 1.3 The Annual Governance Statement ('AGS') explains how Coventry City Council has complied with the Code and in doing so, reflects the requirements of the Accounts and Audit (England) Regulations 2011, which requires all relevant bodies to prepare an Annual Governance Statement. The AGS also details key governance / control issues identified through the assessment that the Council faces in the coming year.

2. Options considered and recommended proposal

- 2.1 The Annual Governance Statement is informed by a review of the Council's governance environment, which is based on a number of sources including:
 - An annual assessment of the adequacy of internal controls / governance arrangements by each Director.
 - The outputs from the Internal Audit Service, reflected in an annual report that identifies those issues, which in the opinion of the Internal Audit and Risk Manager, should be considered when producing the Annual Governance Statement.
 - A review of the effectiveness of the Council's system of Internal Audit.
 - Reports from external bodies during the year, including those from the Council's external auditors and Ofsted.
- 2.2 Section 5 of the Annual Governance Statement, attached at Appendix One, highlights those areas that the Council considers require internal control / governance improvements. This assessment is co-ordinated by the Internal Audit and Risk Manager, but also incorporates the views and opinions of senior officers. The key disclosures come from the following processes:
 - A review of progress against disclosures highlighted in the Annual Governance Statement 2013-14.
 - New disclosures identified as part of the assessment process outlined in section 2.1.

These processes are expanded upon overleaf.

2.3 **Update on disclosures made in the Annual Governance Statement 2013-14** - A review of the seven disclosures highlighted in the Annual Governance Statement 2013-14 has found that the disclosures fall into two categories, namely:

2.3.1 Carry forward to the 2014-15 Statement - A number of governance / control issues remain in the Annual Governance Statement. These are detailed below:

- Implementation of the Improvement Plan in response to the outcome of the Ofsted inspection of Children's Services - The improvement plan has been monitored through the meetings of the Improvement Board and regular performance reports since March 2014. A new refreshed improvement plan was put in place in April 2015 to recognise progress made and this identifies our improvement actions for the coming 12 months.
- Ensuring the delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Strategy – The final phase of budgeted abc savings are planned for 2015/16 alongside new savings linked to overarching strategies under the headings of Kickstart and Customer Journey, City Centre First, Workforce Strategy and Doing Things Differently. The Council has set a balanced budget for 2015/16 and projects smaller than previous budget gaps for 2016/17 and 2017/18 if all projected savings are achieved. However, the key strategies are in the early phases of implementation and it is too early to assess their success.
- The delivery of the Kickstart programme - the Council's plan for making savings, supporting city centre regeneration, office rationalisation and the delivery of a new purpose built office supported by a radically transformed approach to the way the Council works - Works are progressing on time and to plan. The overall projected savings target remains at £500k per annum from operation of the new council building. This is a continuing inclusive engagement strategy within the organisation which includes the recent successful recruitment of 100+ 'Change Agents' from all levels of the organisation to deliver consistent change at a team level. In terms of progress on individual elements of the programme, these are detailed below:
 - P1 Development – executed commercial agreement with Friargate LLP; secured 2nd tenant; continuing agreed plans to market wider development.
 - P2 Bridgedeck – Works completed on time in May 2015.
 - P3 Accommodation and Facilities Management – Friargate / Council House / Broadgate House – all design works progressing as planned; works at Broadgate House and Friargate have commenced and due for completion August 2015 and December 2016 respectively.
 - P4 ICT& Business Improvement – progressing to project plan.
 - P5 HR & Culture Change – progressing to project plan.
 - P6 Decommissioning – Vacated Elm Bank ahead of project plan; sold CC1 – CC4; agreed release of Christchurch and Spire House and all other disposals progressing to project plan.
 - P7 Customer Journey – progressing to project plan.
- To continue to implement the Education Improvement Strategy in order to raise standards across all schools in Coventry - There has been significant improvement in the outcomes for children in the Early Years Foundation Stage, Key Stage 1 and Key Stage 2. Attainment was the highest in the city's history at all levels and progress measures at the end of Key Stage 2 are in line with those nationally at the expected and more than expected levels. Currently, 79% of Coventry's primary school pupils attend a good or outstanding school. The picture is more variable in secondary schools. The percentage attaining 5A*-C at GCSE dipped again in 2014 and is below the national

average. Gaps remain too wide for different groups of pupils such as the disadvantaged and more able. The proportion of students attending a good or outstanding secondary school has declined to 52.5%. Despite this, the percentage of outstanding secondary schools in the city is above that of statistical neighbours and nationally.

- Ensuring that robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions - The Audit and Procurement Committee received an update on this issue in February 2015 where it was highlighted that in addition to existing processes within Council Tax, an on-going programme of proactive reviews will be undertaken by the Fraud and Error Team. No assessment on the impact of the new arrangements has been undertaken as the reviews have only recently commenced and the Council's approach in this area is still being developed.

2.3.2 Closed from the 2013-14 Statement – Two disclosures have been closed as they are no longer viewed as significant governance / control issues facing the Council. These are outlined below:

- Ensuring that any potential impacts that the transfer of the Benefit Fraud Team to the Department of Work and Pensions (DWP) in March 2015 has on fraud arrangements in the Council are identified and managed - The impact was partly offset by the fact that responsibility in legislation for investigating benefit fraud has moved from local authorities to the DWP. However, in light of the Council's on-going responsibility for Council Tax, a team of two was set up in March 2015 to respond to the risk of fraud and error in this area (e.g. Council Tax support, exemptions and discounts).
- Gaining assurance that all functionality available through the new Agresso financial system is both utilised and embedded in practice - This disclosure was based primarily on the findings of the 2013-14 review of Accounts Receivable but also acknowledged that the Agresso System had been in use for a relatively short period of time and that some system functionality had not been fully implemented. Three reviews of the Agresso System have taken place during 2014-15, namely:
 - IT Application Review – Moderate Assurance.
 - Accounts Payable – Significant Assurance.
 - Accounts Receivable – Moderate Assurance. Whilst the review has identified that further improvements are still required, action has been taken to address the key concerns highlighted in the 2013-14 audit.

2.4 **New Disclosures** – Two new disclosures have been identified for the Annual Governance Statement 2014-15. These are detailed below:

- To address the concerns over the robustness of the payment process in respect of adult social care, which are administered through the CareDirector System – This is in response to findings of a recent Internal Audit review, which are included in the Internal Audit Annual Report 2014-15.
- To undertake a review of the Council's Code of Corporate Governance - This issue was identified as part of the review undertaken to support the production of the Annual Governance Statement.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable associated with this report.

5. Comments from the Executive Director Resources

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal control / governance have clear and direct effects on finance within the Council. Since these vary widely, it is not useful to attempt to summarise them here, beyond noting that all systems and controls are designed to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2 Legal implications

The City Council is required by the Accounts and Audit Regulations 2011 to approve, and subsequently publish, the Annual Governance Statement within the Statement of Accounts.

6. Other implications

6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

The governance framework comprises the systems and processes (i.e. the internal control environment), and culture and values, by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services. As such, without the continued focus and / or improvements to the systems of internal control / governance required for the eight areas identified, there is a likely increased risk that the Council may fail to deliver key objectives and corporate priorities.

6.2 How is risk being managed?

The key risk that exists is that planned action is not implemented. In terms of actions planned, they fall into two categories:

- Linked to an audit / external review – Irrespective of whether the review was completed by Internal Audit, External Audit or another external agency, a defined process exists to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is generally reflected in reports to a designated committee or board. When appropriate, it is the relevant committee / board's responsibility to ensure that where progress has not been made, prompt action is taken to address this fact.
- Agreed priority – In such cases, the areas are of such importance that they have been considered and managed through the Council's governance framework.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

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This report is published on the council's website:

www.coventry.gov.uk/meetings

Appendix One – Annual Governance Statement 2014-15

1. Scope of responsibility

- 1.1 Coventry City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Coventry City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Coventry City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Coventry City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles reflected in the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is available on our website at http://www.coventry.gov.uk/downloads/download/1181/code_of_corporate_governance or can be obtained from Democratic Services.
- 1.4 The Annual Governance Statement explains how Coventry City Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The 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 the risks to the achievement of Coventry City Council policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Coventry City Council for the year ended 31st March 2015 and up to the date of approval of the Statement of Accounts.

3. The governance framework

The key elements of the systems and processes that comprise the authority's governance arrangements are documented in the City Council's Code of Corporate Governance and include the following:

- 3.1 There is a governance / internal control environment that supports the Council in establishing, implementing and monitoring its policies and objectives. The Council's overarching objectives are contained in published policy documents including the Council

Plan. These high level plans are supported by a range of thematic policies, strategies and delivery plans, service plans, and detailed work programmes.

- 3.2 Coventry's Council Plan "*Coventry open for business*" was adopted in January 2014 and sets out the Council's long term vision and priorities for the city for the next ten years. To deliver the vision and priorities, the Council Plan affirms the Council's commitment to do this by maximising the use of its assets and reducing its operating costs, and through active citizens and strong and involved communities. The Council Plan is part of the Council's performance management framework designed to help the Council deliver its services and use its resources effectively in a planned and systematic way.
- 3.3 Throughout this process, clear channels of communication exist with all sections of the community and other stakeholders, to ensure the Council considers local needs and communicates both expected and actual outcomes for citizens and service users. This is evidenced through the Council's formal decision-making and performance management processes.
- 3.4 The control environment to ensure delivery of the Council's objectives is laid down in the Council's Constitution and performance management framework. The Constitution sets out how the Council operates, including:
 - Roles and responsibilities of both Councillors and officers, including the Head of Paid Services, Monitoring Officer and Chief Financial Officer.
 - How decisions are made and the procedures in place to ensure that these are efficient, transparent and accountable to local citizens. The Council facilitates policy and decision-making via a Cabinet structure with Cabinet Member portfolios. There are scrutiny boards covering all portfolios and an overarching Scrutiny Co-ordination Committee.
- 3.5 Coventry City Council has developed a comprehensive set of policies and procedures, including those relating to the standards expected of Members and officers. These are subject to regular review to ensure the Council continues to enhance and strengthen its internal control environment. Systems exist to ensure compliance with policies and procedures, including statute and regulations. Internal Audit, who complete an annual risk based plan that assesses compliance with key procedures and policies, supports this.
- 3.6 The Council's Risk Management Strategy was revised in 2012 and includes processes for identifying, assessing, managing and monitoring financial and operational risks. Risk registers at directorate and corporate level are updated and reviewed regularly by senior managers and Members. The Council is looking for continuous improvement throughout the Council in the management of risks, and this is being monitored through the Strategic Management Board.
- 3.7 The Council, through its Whistleblowing and Complaints Procedures, has documented processes in place to deal with concerns raised by both employees and members of the public. These policies have been widely communicated and are subject to regular review to ensure they are working effectively. In addition, the Council's Fraud and Corruption Strategy was revised in 2012 and reinforces the Council's commitment to creating an anti-fraud culture, whilst having effective arrangements in place in responding to allegations of fraud and corruption.
- 3.8 An Audit and Procurement Committee provides independent assurance to the Council on various issues, including risk management and control and the effectiveness of the arrangements the Council has for these matters. The Committee's terms of reference were developed in conjunction with CIPFA guidance, and the Committee carries out an

annual self-assessment to measure its effectiveness, based on recommended CIPFA practice.

3.9 For the financial year 2014-15, the Executive Director, Resources, was the nominated Section 151 Officer, with the delegated responsibility for ensuring there are arrangements in place for proper administration of financial affairs. In assessing this role against the requirements stated in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010), the authority meets the five principles laid out in the CIPFA Statement, namely:

- The Chief Financial Officer (CFO) in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.
- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
- The CFO in a local authority must be professionally qualified and suitably experienced.

3.10 The Annual Governance Statement also includes a review of the effectiveness of the system of internal control within group activities, where the Council is in a relationship with another entity to undertake significant activities. The following describes the group activities for the year ended 31st March 2015:

- Coventry and Solihull Waste Disposal Company is owned jointly by Coventry City and Solihull Metropolitan Borough Councils. A formal agreement sets out the operating arrangements between Coventry and Solihull. The Company is subject to the Waste Incineration Directive and the conditions of its Integrated Pollution Prevention and Control License issued by the Environment Agency. Furthermore, the Company monitors its activities through an accredited Environmental Management System. The Company has appointed Ernst & Young LLP as its external auditors. The last published Annual Report and Financial Statements, for the year ended 31st March 2014, did not highlight any significant concerns. In the year CSWDC redeemed £3.6m of preference shares held by Coventry City and Solihull Metropolitan Borough Councils.
- North Coventry Holdings (NCH) Limited is a wholly owned subsidiary of the Council. The Directors of the Company are also senior officers of Coventry City Council. The Company has LDP Luckmans as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st March 2014. The Company's purpose is to hold shares in two companies, Coventry North Regeneration Limited and Arena Coventry Limited. On the 8th October 2014, London Wasps Holdings Limited (LWHL) acquired the 50% shareholding held by NCH in Arena Coventry Limited.
- Coventry North Regeneration (CNR) Limited is a wholly owned subsidiary of NCH Limited. The main activity of the Company was the construction of the Ricoh Arena.

The Directors of the Company are also senior officers of Coventry City Council. All transactions are processed using the Council's financial systems and such activities are subject to an annual audit by the Council's Internal Audit Service. The Company has LDP Luckmans as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st March 2014.

- Arena Coventry Limited (ACL) was originally set up as a joint venture between NCH Limited and Football Investors Limited (a company owned by the Alan Edward Higgs Charity). The Company is engaged in the management of the Ricoh Arena. On the 8th October 2014, London Wasps Holdings Limited (LWHL) acquired the 50% shareholding held by NCH in ACL. On 14th November 2014 LWHL completed their acquisition of 100% shareholding in ACL by acquiring a 50% shareholding from the Alan Edwards Higgs Charity. The Company has Dains LLP as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31st May 2014.

4. Review of effectiveness

4.1 Coventry City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. This is informed by the work of senior managers within the authority, who have responsibility for the development and maintenance of the governance environment, the Internal Audit and Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The Council has developed a comprehensive framework for overseeing its governance environment. This includes:

- Regular and detailed monitoring of the Council's performance, by both Strategic Management Board and Members, against targets and objectives set out in the Council's Plan.
- Ongoing reviews of the Council's Constitution, overseen by the Constitution Advisory Panel and subject to approval by Full Council. These reviews include areas such as standing orders, financial procedures and the scheme of delegation.
- Regular reviews of Council's strategies and procedures to ensure they continue to reflect the needs of the Council.

4.3 The review of effectiveness has also been informed by:

- Reports from the external auditors and other inspection agencies.
- An annual assessment of the adequacy of internal controls / governance arrangements by each Director.
- The work of the Internal Audit Service during 2014-15. The Service works to a risk based audit plan, which is approved annually by the Council's Audit and Procurement Committee. An annual report is also produced and presented to the Committee. The report identifies those issues, which in the opinion of the Internal Audit and Risk Manager, should be considered when producing the Annual Governance Statement.
- A review of the effectiveness of the Council's system of Internal Audit.

4.4 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Procurement Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant governance issues

5.1 The Council is seeking to continuously enhance its management arrangements to improve service delivery, efficiency and value for money, whilst achieving its objectives. To support this, the following key challenges exist:

- a) Achievement of improvement in children's services leading to a satisfactory Ofsted inspection outcome during 2015-16.
- b) Ensuring delivery of the Council's vision and corporate objectives, in line with the Medium Term Financial Strategy. This is underpinned by the delivery of significant financial savings from new strategies set out in the 2015/16 Budget Report. Successful implementation of this next stage of transformation will be fundamental to enabling the Council to achieve its immediate financial targets, and establish a basis for addressing future reported budget gaps which rise to £16 million by 2017/18.
- c) The delivery of the Kickstart programme - the Council's plan for making savings, supporting city centre regeneration and rationalising its office estate. This includes the delivery of a new Customer Service Centre, a Democratic Centre within the Council House and a new purpose built office at Friargate supported by a radically transformed approach to the way the Council works and engages with its customers. The Kickstart programme will create the environment for culture change within the Council, leading to a more agile, modern organisation which is able to deal more effectively with demand changes and service transformation.
- d) To continue to implement the Education Improvement Strategy in order to raise standards across all schools in Coventry.

5.2 The review of internal control has also highlighted a number of areas for improvement. In each case, work is planned to address the issues identified and, where appropriate, audit reviews are planned to assess progress made. These are:

- a) To ensure robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions.
- b) To address the concerns over the robustness of the payment process in respect of adult social care, which are administered through the CareDirector System.
- c) To undertake a review of the Council's Code of Corporate Governance.

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