

Item 6

REPORT TO COUNCIL

28th JULY 2006

REPORT OF CHIEF EXECUTIVE

Portfolio: STRATEGIC LEADERSHIP

LOCAL CODE OF CORPORATE GOVERNANCE – ANNUAL REPORT AND REVIEW OF CORPORATE GOVERNANCE 2005/06

1. SUMMARY

This report has been prepared in accordance with the Local Code of Corporate Governance, as approved by Council in December 2002 (Minute C54/02 refers) and is an annual report detailing compliance with, content of and progress against the action plans established to develop the Councils corporate governance arrangements during the 2005/06 financial year.

2. RECOMMENDED

It is recommended that

- 2.1 The Annual Report for 2005/06 be approved.
- 2.2 Following the review of compliance with, content of and progress against the actions plans established, the Local Code of Corporate Governance, as approved by Council in December 2002, remains unchanged.
- 2.3 The Chief Executive continues to monitor, through Management Team, progress against the Corporate Governance action plans and further reports be submitted to Council on an annual basis.

3. BACKGROUND

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) issued a framework document “Corporate Governance in Local Government: A Keystone for Community Governance” and an accompanying guidance note in 2001. The framework defined the principles that should underpin corporate governance and every Local Authority was urged to:
 - Review its existing Corporate Governance arrangements against the framework.;
 - Prepare, adopt and maintain an up to date Local Code of Corporate Governance, including arrangements for ensuring its implementation and ongoing application.

- Make a statement annually in its financial statements and refer to it in its Best Value Performance Plan (BVPP), on how the Council is complying with its Local Code,
- including how it monitored the effectiveness of its Corporate Governance arrangements in the year and any planned changes in the coming year.

3.2 Strong and effective Corporate Governance arrangements enable the Council to demonstrate that:

- it has community focus;
- effective service delivery arrangements;
- robust structures and processes;
- effective risk management and internal controls; and
- proper standards of conduct.

The principles underpinning these five 'dimensions' are accountability, integrity and openness and inclusivity.

3.3 Council approved the Local Code of Corporate Governance at its Special meeting in December 2002, detailing the measures the Council takes to demonstrate how it meets the requirements of the five dimensions of Corporate Governance. An action plan was compiled to ensure that any tasks that needed to be undertaken to fully comply with the Code were identified and regular monitoring of progress against these actions (to strengthen the Councils Corporate Governance arrangements) have been reported to Management Team since that date.

3.4 CIPFA and SOLACE are currently reviewing and updating the original framework and a number of key areas are being addressed:

- Partnership arrangements;
- the emerging Local Government Agenda;
- the fit with the Statement of Internal Control;
- the Operating and Financial Review;
- the good governance standard for public services;
- monitoring and review arrangements;
- the role of the Monitoring Officer;
- the role of the Standards and Audit Committees.

A first draft of the new framework is currently being drawn up and a consultation document will be issued shortly to give local authorities and other interested parties an opportunity to influence the outcome.

4. IMPROVING CORPORATE GOVERNANCE ARRANGEMENTS DURING THE YEAR

4.1 The Chief Executive has specific responsibility for:

- Overseeing the implementation and monitoring of the operation of the Code.
- Reviewing the operation of the Code in practice.
- Reporting annually to the 'Body charged with Governance' on the compliance with the Code and to identify any changes that may be necessary to maintain it and ensure its effectiveness in practice.

- 4.2 The Head of Financial Services is responsible for co-ordinating and monitoring progress against the action plans developed to further strengthen the Councils Corporate Governance arrangements and for preparing update reports for consideration. Management Team has considered progress made against the outstanding/ongoing tasks on three occasions in respect of the 2005/2006 financial year.
- 4.3 Whilst many of the original tasks have now been fully completed, a number of new issues/tasks, have been identified and are now included in the action plan and responsible officers assigned to each of these.
- 4.4 Members will recall that there was a schedule showing 10 tasks that were in the process of being undertaken at the end of the 2004/05 financial year. During the 2005/06 financial year, a number of those initial tasks have been completed, including:
- *Ensure Job Descriptions and Job Specifications are in place.*
 - *Undertake a full Race Equality Impact Assessment on all Council functions.*
 - *Ensure a consistent application of a Corporate Assessment process in respect of ICT capital projects.*
 - *Review Overview and Scrutiny arrangements/procedures to take into account the Audit Commission observations of the 2003/04 Corporate Governance report.*
- It is noted that whilst some of the initial tasks have now been completed, a number of Action Plans have subsequently been developed to ensure ongoing progress is being achieved or maintained and progress against these Action Plans should be considered by the Council's Strategic Working Groups.
- 4.5 An outstanding task at the beginning of the year, 'Ensure a Comprehensive Range of Accounting Instructions and Procedure Manuals for all Significant Financial Systems', was amended during the year in view of the concerns expressed worldwide by the World Health Organisation concerning the potential of an Influenza Pandemic and a Use of resources Key Line of Enquiry requirement issued by the Audit Commission. The task was revised to 'Ensure that there are Procedural Notes/Manuals in place for those Systems that are Business Critical'.
- 4.6 In March 2006 a report was presented to Cabinet seeking approval for the 2006/07 to 2008/09 County Durham Local Area Agreement (LAA) that noted that there was a potential impact upon the Council's Corporate Governance Arrangements. The report also noted that the fine detail of the LAA Governance Arrangements are still in development and the task of completing those arrangements are included as an outstanding task in the Appendix to this report.
- 4.7 A full list of outstanding tasks as at the end of 2005/06 financial year is shown at Appendix 1.

5. EXTERNAL AUDITOR JUDGEMENT

- 5.1 The Audit Commission review the Council's Corporate Governance arrangements on an annual basis as part of their normal audit programme. In the 2004/05 Annual Audit and Inspection Letter, recently presented to Cabinet, the Audit Commission concluded that the Council's overall Corporate Governance arrangements are consistently above the minimum requirements in most key areas.
- 5.2 During the 2005/06 financial year the Audit Commission consulted with all local authorities on a review methodology for undertaking Corporate Governance Inspection and its associated Key Lines of Enquiry. The Audit Commission is currently considering the responses to the consultation and they will be publishing their final framework for Corporate Governance Inspection in 2006. It is intended that a small group of Heads of Service will review the revised framework and any consequent actions required to achieve full compliance will be included in a revised action plan, with progress being monitored by Management Team.

6. ANNUAL STATEMENT OF ASSURANCE ON CORPORATE GOVERNANCE

- 6.1 In accordance with recommended best practice, the Chief Executive and Leader of the Council are required to both sign a 'Statement of Assurance on Corporate Governance' for inclusion in the annual Statement of Accounts.
- 6.2 The 'Statement of Assurance' in the 2004/05 Statement of Accounts stated that, on the basis of information supplied to them, the Chief Executive and Leader were satisfied that the Council's arrangements were adequate and operating effectively. It was acknowledged that there were several aspects of the Code of Corporate Governance that were not in place but that actions were being undertaken which were being monitored by Management Team to ensure that full compliance will be achieved.
- 6.3 Given the findings of the 2004/05 Corporate Governance Audit by the Audit Commission and progress achieved in the last year, the 'Statement of Assurance' in the 2005/06 Statement of Accounts has again, in the opinion of the Chief Executive and the Leader, stated that the Council's arrangements are adequate and operating effectively. Monitoring of progress against the actions identified will continue to be undertaken to ensure that full compliance will eventually be achieved over a reasonable timescale.

7. CONCLUSIONS

- 7.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) existing framework document "Corporate Governance in Local Government: A Keystone for Community Governance" is about to be revised and the Audit Commission is also about to issue its revised methodology for undertaking its Corporate Governance Inspection and its associated Key Lines of Enquiry. Officers of the Council will review these documents when available and consider the implications in order to determine the extent of the Council's compliance with their revised requirements.
- 7.2 The Councils Corporate Governance arrangements will continue to be subject to annual external and internal review and audit and the operation of the existing or revised Code in practice, through regular update reports to Management Team

on progress achieved against action plans is designed to strengthen these arrangements.

- 7.3 Therefore, there is no reason as yet to change, amend or alter the existing Local Code of Practice, until further information is available from CIPFA, SOLACE and the Audit Commission.

8. RESOURCE IMPLICATIONS

There are no financial issues arising directly from this report.

9. CONSULTATIONS

Responsible officers allocated to the individual outstanding tasks have been fully consulted in the production of this report.

10. LINKS TO CORPORATE OBJECTIVES/VALUES

Reviewing and monitoring the Council's Corporate Governance arrangements ensures that the following corporate value is being addressed:

- *Being open, accessible, equitable, fair and responsive.*

11. RISK MANAGEMENT

If the Council is not able to demonstrate to the Audit Commission during a Comprehensive Performance Assessment (CPA) Review, that it had good governance arrangements in place, or any weaknesses were not being addressed, it would inevitably have a detrimental impact on the overall assessment and it would not be possible for the Council to achieve the highest possible score.

If there are not adequate Governance arrangements in place when the Council is engaged with partners for the delivery of services, there is also a risk that the Council may be required to deal with any financial liabilities resulting from any failure in the partnership arrangements.

12. HEALTH AND SAFETY

No additional implications have been identified.

13. EQUALITY AND DIVERSITY

No additional implications have been identified.

14. LEGAL AND CONSTITUTIONAL

No new implications have been identified.

15. OTHER MATERIAL CONSIDERATIONS

No other material considerations have been identified.

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Ward(s) Proposals are not ward specific

Background Papers

- Corporate Governance in Local Government: A Keystone for Community Governance Framework and Accompanying Guidance Note – issued by CIPFA and SOLACE.
- Local Code of Corporate Governance – Report to Special Council 20.12.02
- Local Code of Corporate Governance-Annual Report to Overview and Scrutiny 1 Committee 15.06.04
- Corporate Governance – Task Updates – Reports to Management Team 19.09.95; 09.01.06; 22.05.06
- Audit Commission Annual Audit and Inspection Letter 2004/05 – Report to Cabinet May 2006
- County Durham Local Area Agreement 2006/07 to 2008/09 – Report to Cabinet March 2006

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

<i>Task</i>	<i>Description</i>	<i>Responsible Officer</i>	<i>Revised Target Date for Completion</i>
1.	Develop an Organisational Development Plan.	Director of Resources	June 2006
2.	Ensure that there are procedural notes/manuals in place for those systems that are business critical.	All relevant Heads of Service	June 2006
3.	Undertake a Self Appraisal of Key Partnerships, including SRB, Sure Start, Community Safety and Develop Partnership Protocol/Framework.	Head of Strategy and Regeneration and Monitoring Officer	June 2006
4.	Develop and communicate a formal ICT System Business Continuity/Disaster Recovery Plan.	Head of ICT	August 2006
5.	Develop an ICT Security Policy	Head of ICT	March 2007
6.	Review (and amend where necessary) the Contract Procedure Rules within the Constitution.	Head of Service Improvement and Monitoring Officer	October 2006
7.	Develop appropriate Governance arrangements for the Local Area Agreement.	Head of Strategy and Regeneration.	September 2006

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