

Audit Committee

28 June 2017



Draft Annual Governance Statement for the Year April 2016 – March 2017

Report of Corporate Management Team

Report of John Hewitt, Corporate Director Resources

Purpose of the Report

- 1 To seek approval of the draft Annual Governance Statement (AGS) for 2016/17, attached in **appendix 3**. Audit Committee will be asked to approve the Final AGS on 31 July 2017.

Background

- 2 The Accounts and Audit Regulations 2015 require a local authority to conduct a review at least once in a year of the effectiveness of its system of internal control. The findings of the review must be reported publicly in an AGS, showing the extent to which they comply with their own code of governance. The AGS should also explain how the effectiveness of the governance arrangements in the year have been monitored, and include any planned changes in the coming period.
- 3 The legal requirement will be fulfilled if the review is conducted in accordance with the new Delivering Good Governance (DGG) in Local Government Framework (2016). The guidance notes accompanying the framework include key good practice features of an annual governance statement and these are set out in **appendix 2**.
- 4 The Corporate Director, Resources is responsible for co-ordinating and overseeing the Council's corporate assurance arrangements, and prepares the AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements, to be published in the Council's Annual Statement of Accounts. The draft AGS is included in **appendix 3**.

Outcome of the Review of Effectiveness

- 5 The outcome of the review of effectiveness is set out in the AGS and concludes that the Council's corporate governance arrangements in place during 2016/17 were fit for purpose in accordance with the governance framework.

Issues for Consideration

- 6 The AGS should also highlight any areas where improvements to governance arrangements are planned, for example, through enhancements to existing arrangements as part of continuous improvement or from an identified weakness. With regard to the latter, there are no formal criteria of what constitutes a significant weakness requiring action. Guidance issued by the Chartered Institute of Public Finance and Accountancy lists factors which may be helpful in deciding whether or not a particular issue should be regarded as falling into this category:
- (a) The issue has seriously prejudiced or prevented achievement of a principal objective.
 - (b) The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
 - (c) The issue has led to a material impact on the accounts.
 - (d) The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
 - (e) The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
 - (f) The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
 - (g) The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
- 7 The review also concluded that five actions, listed in appendix C of the AGS, should be included in the plan of improvements to strengthen governance arrangements during 2017/18.

Recommendations and reasons

- 8 Audit Committee is requested to:
- (a) approve that actions 1 to 5 in appendix C are included in the plan of improvements to strengthen governance arrangements during 2017/18;
 - (b) confirm that this draft AGS can proceed to Audit Committee.

Appendix 1: Implications

Finance – Financial planning and management is a key component of effective corporate governance.

Staffing – Ensuring the adequate capability of staff meets a core principle of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance.

Risk – Delivery of the corporate governance action plan will strengthen the decision making and strategic and operational management of the Council's business.

Equality and Diversity / Public Sector Equality Duty – Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

Accommodation – None directly, although asset management is a key component of effective corporate governance.

Crime and Disorder – None

Human Rights – None

Consultation – Engaging local communities meets a core principle of the CIPFA/ SOLACE guidance.

Procurement – None

Disability Issues – Ensuring access to services meets a core principle of the CIPFA/ SOLACE guidance.

Legal Implications – Ensuring compliance with relevant laws and regulations, and ensuring that expenditure is lawful, is a key component of effective corporate governance

Appendix 2: Key Good Practice Features of an AGS

The following text is an extract from the CIPFA/SOLACE: *Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016*.

4.4 Key good practice features of an annual governance statement are described below:

- The statement has been properly approved.
- It is regarded as a valuable means of communications which will enable stakeholders to understand the authority's governance arrangements.
- It is easily accessible by authority members and members of the public, for example:
 - through its prominent display on the authority's website
 - publishing it with, but separately from, the statement of accounts.
- It has been clearly thought out and reflects the vision, character and structure of the authority, ie the big picture and not the detail.
- It demonstrates ownership by the authority and has a high status within senior management.
- It is a genuinely shared effort with wide input from outside the finance and audit functions.
- It is a key document for showing how the authority is achieving its strategic objectives.
- It is in an open and readable style.
- It demonstrates challenge.
- Issues are clearly articulated and it communicates a clear and concise message.
- Weaknesses together with areas for improvement are highlighted.
- It clearly communicates what has been done to resolve significant control issues and what remains to be done.
- Actions identified are specific, measurable, achievable, realistic and time-related (SMART).
- Responsibility for those actions is clearly identified.
- It is a 'living' document, ie it is not focused exclusively on year end and communicates significant issues which may change from year to year.

4.5 Other innovative features might include the following:

- Good use of diagrams to communicate the message more effectively and reduce the need for text.
- Use of hyperlinks to key governance documents to facilitate a brief and more user friendly statement.

Appendix 3: Annual Governance Statement 2016/17

INTRODUCTION

1. This statement meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2017.

CONTEXT

2. To provide context for this statement, summarised information relating to the constitution, structure, budget and services provided by Durham County Council, along with key statistical information about County Durham can be found on the [About Us](#) page on the Council's website.

SCOPE OF RESPONSIBILITY

3. Durham County Council (the 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.
4. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts. The 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.
5. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.
6. In January 2017, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – "Delivering Good Governance in Local Government".

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

7. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.
8. The system of internal control is a significant part of that 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 ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place across the Council for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

10. The key elements of the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven core principles of the CIPFA/ SOLACE Framework.
11. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in March 2017.
12. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).
13. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2016/17.

REVIEW OF EFFECTIVENESS

14. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and also by comments made by the external auditors and other review agencies and inspectorates.
15. Maintaining the effectiveness of the corporate governance framework involves the key Member and Officer roles outlined below, namely:
 - The Executive
 - Chief Financial Officer
 - Monitoring Officer
 - Overview and Scrutiny Committee
 - Standards Committee
 - Audit Committee
16. The Council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:
 - The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
 - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
 - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
 - Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
 - External Audit provides an independent opinion on whether the AGS is materially accurate.
17. The review was also informed by a statement provided by each Corporate Director commenting on the effectiveness of the Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.
18. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit Committee in June 2017. This opinion is based on audit reviews undertaken during the year which

found all systems reviewed to give substantial or moderate assurance, except in 22 cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements. However, the procedure for approving payments to agency workers across the Council is disclosed as an area requiring improvement. Whilst it is understood that the necessary changes were implemented in the last quarter of 2016/17, it is essential that these are closely monitored across the coming year to ensure they are effective.

19. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2016/17 is included in **appendix A**. An update on improvements identified in the 2015/16 is included in **appendix B**.

CONCLUSION

20. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2016/17 were fit for purpose in accordance with the governance framework. As a result of the review of governance arrangements, and the work of both internal and external audit, we have identified five actions as part of ongoing improvements to further strengthen governance arrangements in 2017/18. These are shown in **appendix C**.

APPROVAL OF ANNUAL GOVERNANCE STATEMENT

Signed:

Simon Henig
Leader of Durham County Council

Terry Collins
Chief Executive

John Hewitt
Corporate Director, Resources

APPENDIX A: Governance Arrangements during 2016/17

Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2016/17.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Behaving with integrity

1. The expected standards of behaviour for members and employees are detailed in codes of conduct in the Council [Constitution](#), which also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council. They are communicated at induction and re-iterated regularly during appraisals and in news bulletins.
2. A Corporate Complaints policy is in place for non-statutory complaints, and details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee. The Council's Monitoring Officer oversees the arrangements for conflicts of interest, gifts and hospitality. Members are required to review their declarations of gifts and hospitality annually. Officers and members are required to declare annually any conflicts of interest. The register of gifts, interests and hospitality for members is available online. Staff declarations are maintained and monitored by their Head of Service.
3. The key mechanism provided for employees, contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the [Confidential Reporting Code \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. An updated [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) were approved by Audit Committee in February 2016. The Corporate Fraud Team maintains robust counter fraud arrangements and piloted a joint approach to fraud investigation with Durham Constabulary to improve the understanding of the risks of serious and organised crime.

Demonstrating strong commitment to ethical values

4. The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected members, independent

members and co-opted members. The Localism Act 2011 introduced a new duty to promote and maintain high standards of conduct and an ethical framework was adopted accordingly. The annual report of the Standards Committee was presented to Council in September 2016.

5. The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and all contracts contain clauses requiring providers to have appropriate procedures in place to prevent unlawful discrimination in employment.

Respecting the rule of law

6. In February 2017, the Council approved with immediate effect that the Chief Executive Officer (the head of paid service) and the Corporate Director Resources undertake the roles of Returning Officer and Deputy Returning Officer respectively. The Council also approved that that the recruitment of the Head of Legal and Democratic Services, on both an interim and subsequent permanent basis, be delegated to the CEO and the Corporate Director Resources, in consultation with the Leader of the Council.
7. To strengthen the arrangements for meeting its duty of care to service users and the public, the Council has instructed officers to devise a policy framework on Disclosure and Barring Service checks for members and present this to the Constitution Working Group.
8. As required by law, the Council has established and maintains an independent remuneration panel to provide advice on allowance schemes and the amounts to be paid to members.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

9. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. A notice of key decisions covering a rolling period of four months is published on the Council's website, and decisions made by the Executive are published within two days of the respective meeting.

Engaging comprehensively with institutional stakeholders

10. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates. Through its partnership governance framework, the Council seeks

assurance that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority, and that there is clarity about the legal status of the partnership. Efforts are made to ensure that representatives and organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

11. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in County. Through the Transformation Programme, the Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment. Under the same programme, a review of partnerships has commenced, with the aim of moving this aspect of working from good to great through efficiencies, sharing resources and seeking to ensure that the county has a louder, stronger voice.
12. In support of the Voluntary and Community Sector (VCS), the Better Together Forum, which is chaired by the VCS representative on the County Durham Partnership Board, brings together senior representatives of larger or specialist VCS organisations with a countywide remit to share best practice and look for new opportunities to collaborate.
13. A Chief Officer Group continues to provide support and oversight to chief officers across all statutory agencies of the safeguarding arrangements for children and adults services. The Group has an independent Chair and includes officers from the Council, NHS and the Police. The Durham Humanitarian Support Partnership, now in its second year, has given support and positive experiences to families welcomed under the Syrian Vulnerable Persons Resettlement Scheme.
14. Visit County Durham, which receives funding from the Council, launched the Durham Place of Light campaign. This place brand and marketing strategy aims to change perceptions of the county around economic success under four main themes: Lighting up days and nights; Lighting up the past; Illuminating the future and Shining spirits. Further information is online at www.durhamplaceoflight.com.
15. Efforts are being made through collaboration on the two NHS Sustainability and Transformation Plans (STP), which were presented to Adults, Wellbeing and Health Overview and Scrutiny Committee in March 2017, to ensure that the benefits of health and social care integration are maximised for County Durham residents. The STPs, which form part of the five year plan for the health

service, aim to bring organisations together to develop a shared plan for better health and social care.

16. The Council has helped further develop the North East Highways Collaborative Alliance, a forum for all 12 north east councils, to facilitate shared services, joint procurement, supply chain optimisation and training.

Engaging with individual citizens and service users effectively

17. The Council's approach to engaging stakeholders is outlined in the [Consultation and Engagement Strategy](#). This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).
18. The new Transformation Programme was informed by consultation with members, employees, trade unions and focus groups. The consultation process for refreshing the Joint Health and Wellbeing Strategy involved a range of stakeholders and included a 'Big Tent' engagement event, which was attended by over 200 people, including service users, patients, carers, representatives from the voluntary and community sector, NHS and local authority partners. The event gave people an opportunity to provide their views on how services should be developed. The Council also consulted with the public and stakeholders as part of the Medium Term Financial Plan (MTFP) development, with presentations and roadshows at various venues, including supermarkets, to engage with as broad a range of people as possible.
19. The Council uses various channels of communication and feedback mechanisms to reach out to and meet the needs of its communities. Fourteen [Area Action Partnerships \(AAPs\)](#) are fully engaged with the community in identifying and addressing local priorities, and utilising locality budgets to drive improvements to the local area. Cabinet-approved masterplan updates for twelve localities were presented to the respective AAP to enable discussion and feedback on proposals. Faith groups also play an important role in health and wellbeing and contribute to flourishing and resilient communities, while inter faith engagement continues through the County Durham Faiths Network.

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Defining outcomes

20. The [Sustainable Community Strategy \(SCS\) 2014 - 2030](#) which has been produced by the Council in conjunction with its partners on the County Durham

Partnership, demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:

- Altogether wealthier – focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme is supported by the [Regeneration Statement 2012 – 2022](#) and the [County Durham Plan](#);
- Altogether better for children and young people – ensuring children and young people are kept safe from harm and that they can 'believe, achieve and succeed'. This theme is supported by the [Children, Young People and Families Plan 2016 - 2019](#);
- Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2016 - 2019](#);
- Altogether greener – ensuring an attractive and 'liveable' local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
- Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2016 - 2019](#) and the [Police, Crime and Victims' Plan 2016-21](#).

Apart from the Regeneration Statement, each of the above documents was refreshed during 2016/17.

21. The Council has responsibility for public health, which is overseen by the Health and Wellbeing Board, a Committee of the Council.
22. As part of the Transformation Programme, a review of the corporate planning process is underway to ensure that plans drive activity in the most cost-effective way. As agreed by members in July 2016, this will include a review of the Council Plan, led by the Director of Transformation and Partnerships. In the meantime the existing three year Council Plan will roll forward until a new corporate planning framework is agreed.

Sustainable economic, social and environmental benefits

23. The Overview and Scrutiny Management Board, supported by its six committees, makes decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as the County Durham Plan, Local

Transport Plan and preventative mental health services review and commissioning.

24. Despite sustained, large-scale Government spending cuts and rising demand for services, the MTFP seeks to deliver some very positive outcomes for the people of County Durham, including:-
- Significant investment in line with the Council's highest priority of regeneration in order to protect existing jobs and create new jobs;
 - Investing in our town centres, industrial estates and infrastructure including new transport schemes and maintenance of our highways and pavements;
 - Continued support to protect working age households in receipt of low incomes through the continuation of the Council Tax Reduction Scheme;
 - Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people; and
 - Continued work with community groups through the 'Durham Ask' initiative to transfer council assets so that they can be sustainable into the future.
25. The values of the Council are further promoted in the [Equality Policy](#), which includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. A mobile-friendly website, [Locate](#), provides an improved directory of vital care and support services, replacing the Durham Information Guide. There is a text messaging facility, enabled by the new customer relationship management system, for customer services enquiries from customers unable to use our other contact channels.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Determining and planning interventions

26. The Council ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, in order to secure best value regardless of the service delivery method. In this respect, improvements have been made to financial modelling and financial advice supporting decisions relating to asset optimisation, particularly in respect of major projects including the strategic employment site and office accommodation programme. Decision-making is also supported by feedback from citizens and service users, for example:-
- The MTFP Plan strategy has been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.
 - The revised Strategy for Youth Support in County Durham was informed by a 12 week public consultation involving all stakeholders, including the views

of young people expressed through the 2015 County Durham Children and Young People's Student Voice Survey for Secondary Schools.

27. The Council operates robust decision-making mechanisms that include an assessment of associated risks and these have enabled outcomes to be achieved in various, innovative ways. For example, by investing in the digital banking company Atom Bank, in response to the growing number of people who use their mobile phone for banking, the region's financial jobs market was boosted, creating around 160 jobs at Aykley Heads. Chapter Homes was created in 2015 to improve the county's housing offer by providing well-designed, quality homes that meet the needs of people wanting to buy or rent in County Durham. Additional benefits include creating local jobs, using local contractors and boosting the local economy.
28. The [Council Plan 2016 - 2019](#) was approved in April 2016 and contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The [Council Plan](#) is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision. Council business is still led by the [Sustainable Community Strategy \(SCS\) 2014 - 2030](#) but the [Council Plan 2016-2019 and Service Plans](#) will be reviewed after the local elections in May 2017 as a new vision for the County.
29. The [Medium Term Financial Plan 2017 - 2020 \(MTFP\)](#) was approved by the Council in February 2017. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#). Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and, during the seven years up to the end of March 2017, a sum of £186m of savings has been delivered. The Council's strategy for the last five years has been to protect front line services as far as possible and the 2017/18 proposals are in line with this strategy. To ensure that front line services can be protected wherever possible, the Transformation Programme seeks to ensure that all options are explored. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.

30. Members and Officers work together on the work programme of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members.

Optimising achievement of intended outcomes

31. The new Transformation Programme will evolve over the next three to five years and includes a number of projects that make up a comprehensive change programme for the Council with the following core objectives:-

- Redesign our services to better meet customers' needs at reduced cost to the Council;
- Help communities become more self-reliant and resilient;
- Move our partnership working from good to great;
- Become renowned for our skilled and flexible workforce and our employee engagement.

The programme reports to a new Transformation Board, consisting of Cabinet members and the Corporate Management Team, and chaired by the Leader of the Council. It is co-ordinated through a Steering group made up of senior officers leading on aspects of the programme and chaired by the Director of Transformation.

Principle E: Developing the Council's capacity, including the capability of its leadership and the individuals within it

Developing the Council's capacity

32. The Council's Customer First Strategy, which aims to put people at the heart of everything the Council does, continues to transform the way in which our residents, visitors, businesses and partners access our services. A new Customer Relationship Management System was implemented to support the delivery of the strategy and its implementation and benefits will be monitored by Cabinet. The new system continues to build on progress made to provide further automated transactions and enhanced service information, giving customers choices in the way they contact the Council.
33. Inspire, which is part of our Transformation Programme, seeks to use modern ways of working to improve the services we provide our customers, making the most of our buildings, and providing the best environment and technology for employees. As well as plans to replace County Hall, four strategic sites will be refurbished to help employees share desks, work smarter and more flexibly.

34. The Council's Corporate Asset Management Plan (CAMP) sets out the Council's approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. A key element of the programme is to work with local communities and our partners to consider alternative ways of continuing to provide front line services. The Council is now experienced in asset transfer, having successfully assigned a number of leisure centres, a golf course and children's centres to community organisations.
35. The Chief Executive implemented a revised chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. A new Transformation and Partnership Service will oversee delivery of the Transformation Programme to support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.
36. The Council maintains an effective workforce plan, through the Organisational Development Strategy, to enhance the strategic allocation of resources. Further work in this area will be undertaken as part of the Transformation Programme.
37. The Council continues to seek value for money (VFM) through its high level objective 'effective use of resources' under the Altogether Better Council theme. In this way, pursuit of VFM is built into all of the Council's plans and activities, and numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided. Senior Management Teams have used benchmarking data from statutory returns and commercial benchmarking clubs to inform programmes of VFM reviews and savings options in various service areas. External Audit will review VFM as part of the audit of the 2016/17 Statement of Accounts.

Developing the capability of the Council's leadership and other individuals

38. The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.
39. The [Constitution](#) also sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice.
40. The Council delegated authority for the discharge of County Council functions in the period between the County Council elections and the reconstitution of Council bodies.
41. The Council is committed to continually reviewing the development needs of members and officers and continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector.
42. Our approach to member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy. A new elected member induction programme covering the constitution, decision making, scrutiny and key services is being developed for the new intake following the 2017 elections. A review of corporate management development was undertaken and sought to meet organisational priorities and the changing needs of the organisation linked to corporate values and the office accommodation programme.
43. The Council continues to encourage public participation through various actions. Support to the Advice in County Durham Partnership was enhanced with regular training and newsletters in addition to established network meetings. Area action partnerships continue to carry out initiatives that support all parts of their communities, for example:-

- East Durham Rural Corridor AAP's 'Out of the Comfort Zone' project is focussed on targeting isolated vulnerable people who do not participate in community activity;
 - Volunteers are given training and support to assist in their roles, help them to move into employment and bring about significant changes, which benefit themselves and their communities;
 - Through Durham Community Action, funded through the Transformation Challenge Award funding, a volunteer passport has been developed that records the individual's journey and training received.
44. The leadership's effectiveness is monitored and subject to challenge through various mechanisms enshrined in the Constitution, such as the overview and scrutiny arrangements, and questioning by members and the public.
45. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.
46. Employee engagement continues through employee roadshows and focus groups, which will be used to generate ideas and support decision making across the Council. New developments in 2017/18 include the chief executive's video blog and focus groups for employees who share protected characteristics.
47. The annual employee survey was expanded, with the endorsement of the trade unions, to include things that may affect staff health and how well they feel at work. The results will be used to improve the support offered to employees as well as management, policies and working practices. These issues are particularly important during changes to the way the council works.

Principle F: Managing risks and performance through robust internal control and strong public financial management

Managing risk and performance

48. As required by the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, risk management continues to be embedded in decision making and key business processes. The Audit Committee seeks assurance, through quarterly update reports, that the Council's strategic risks are being effectively managed.

49. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, driven forward by thematic partnerships set around the five priority themes. Its role includes monitoring performance towards implementing the SCS, and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
50. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting and through performance clinics between the Chief Executive, individual Corporate Directors and the Director of Transformation and Partnerships during the year. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including attendance management and the development and implementation of the customer relationship management system.
51. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the SCS and the [Council Plan](#). To ensure that attention remains focused on Council priorities, a review of these arrangements was initiated under the Transformation Programme. This seeks to reduce the number and size of plans and strategies and develop an approach to performance management that answers key performance questions rather than rely on performance indicators. Quarterly reports will be more concise, using a dashboard style with shorter narrative, and attention will move towards analysing and developing insights from the performance data.
52. The Quality Improvement Board is chaired by the Corporate Director of Children and Young People's Services and meets monthly to provide strategic oversight and lead improvements in quality. The Board oversees the implementation of the Ofsted improvement plan and receives reports on compliance with the tasks in the improvement action plan.
53. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the annual report, decisions and actions of the Police and Crime Commissioner (PCC). An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.
54. The Council endeavours to make the right decisions for the benefit of its stakeholders. The County Durham Partnership Forum meeting in October focused on how children and young people are actively engaged in the work of all partners and AAPs, particularly in decision making and having their thoughts

and ideas heard and, more importantly, put into action. This was inspired by the annual Children's Commissioner's Takeover Challenge, an England-wide event where organisations are encouraged to involve children and young people in decision making. The feedback will be used by the Children and Families Partnership to ensure that the initiative is countywide and all year round and adopted by other partners.

55. The Council's decision-making processes are also supported by a Risk Management Strategy and Policy and an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes. The Council also ensures that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.

Robust internal control

56. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective.

Managing data

57. The Council's arrangements for maintaining good-quality information include:-
 - regular meetings between the Senior Information Risk Officer, the Head of Planning and Performance, Head of ICT Services and the Council's designated Caldicott Guardian;
 - an online information security module, including a section on the Data Protection Act, which has been rolled out to all staff; and
 - data protection arrangements regarding data sharing through standardised subject access requests, privacy impact assessments and a rolling programme of audits.

Strong public financial management

58. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications. The Chief Financial Officer has also provided an opinion under

section 25 of the Local Government Act 2003 on the reserves for the Council, which Members considered when setting the budget.

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Implementing good practice in transparency

59. The council has an open data policy and has been publishing open datasets through the [Data Mill North](#) website. In response to the Local Government Transparency Code, a transparency and accountability web page was set up and the Council's Asset Register is now publicly available under the on the Council's website. As required by law, the sum paid to each county councillor is also published.
60. A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.

Implementing good practices in reporting

61. The Local Code of Corporate Governance was substantially amended to bring it in line with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016. After consultation with the Improvement and Planning Group, it was approved by Audit Committee and Full Council.
62. The Statement of Accounts 2015/16 was approved by the Audit Committee in September 2016, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate. Governance reviews are also led by services, such as the quality assurance team in Children and Adults Services, who carried out a number of audits during the year.

Assurance and effective accountability

63. The Council strives to produce financial statements on a consistent and timely basis, in accordance with Financial Reporting Standards, in a way that enables comparison with other, similar organisations. As part of continuous improvements in the financial accounting process, the Council has commenced an early closure trial for the 2016/17 accounts.
64. The Chief Internal Auditor and Corporate Fraud Manager reports to the Council's Corporate Director, Resources, but in order to ensure independence, has direct access to the Chief Executive, and the Chair of the Audit

Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in July 2016. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.

65. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PSIAS), is in place. The PSIAS were revised to take effect in April 2017, with more emphasis being placed on consultancy activity. Whilst assurance remains critical, it is important that the service can deliver a balanced approach and continually add value to the organisation.
66. The Council approved proposals of the Corporate Director of Resources regarding appointing the external auditor to the Council for the 2018/19 accounts and beyond.
67. The Council won the Excellence in Governance and Scrutiny category of the 2016 Municipal Journal Achievement Awards for its approach to scrutiny, community engagement and consultation on governance and council planning.
68. In February 2016, an inspection of children's services and a review of the Local Safeguarding Children's Board were undertaken by Ofsted under their single inspection framework. The outcome was the Children's Service received a judgement of 'requires improvement'. A Quality Improvement Board (QIB), which had already been established to oversee quality assurance developments in Children's Services, agreed an improvement plan and this was submitted to Ofsted in September 2016. The Senior Inspector and Lead Inspector were assured by the content of the plan and fed back that it was a comprehensive and focused document with clear actions and timescales. Regular reports have been submitted during the year to Corporate Management Team, Cabinet, Children and Young People's Overview and Scrutiny Committee, as well as the Health and Wellbeing Board, Children and Families Partnership and Local Safeguarding Children's Board, providing progress updates on the work of the QIB and the status of the tasks in the improvement plan.
69. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services:-
 - The Care Quality Commission, who reviewed the following service areas: County Durham Care and Support (Extra Care, Short Break/Shared Lives and Supported Housing); Special Education Needs Disabilities.
 - Her Majesty's Inspectorate who reviewed the following service areas: Probation - County Durham Youth Offending Service.

- Ofsted, who reviewed the following service areas: Children's Centres; Children's Homes; Schools; Special Education Needs Disabilities; Targeted Local Area Inspections.
- UK Border Agency Inspection, who reviewed recruitment and selection function.
- A peer review of planning policy systems.

70. Health and safety reporting arrangements were improved with more accurate incident reporting in relation to external contractors.

APPENDIX B: Update on improvements identified in the 2015/16 Annual Governance Statement

Following the production of the Annual Governance Statement for 2015/16, two improvement actions were identified for 2016/17.

No.	Actions to be taken	Lead Officer
1	Implement an action plan to enable approval of the County Durham Plan within statutory requirements	Head Of Planning and Assets, Regeneration and Economic Development
<p><u>Update:-</u> Following consultation on the Issues and Options stage County Durham Plan in Summer 2016, the intention was to develop a preferred options plan for consultation. This process was 'paused' as the government signalled the imminent release of the Housing White Paper and what was considered to be fundamental changes to the plan making process. The Housing White Paper was published on the 7 February 2017 and also signals an intention for further consultations, including on the methodology for developing a housing requirement associated with a local plan. It is expected that this will lead to a revised National Planning Policy Framework towards the end of the year. Comments to the Housing White Paper were required by the 2 May 2017.</p>		
2	Implement a new chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths	Chief Executive Officer
<p><u>Update:-</u> This action is complete. The revised chief officer structure reflects the challenges faced by the Council whilst building on existing organisational strengths and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. The new Transformation and Partnership Service will oversee delivery of the Transformation Programme, which will support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.</p>		

APPENDIX C: Proposed Governance Improvements required during 2017/18

As a result of the review of governance arrangements, and the work of both internal and external audit, five improvement actions have been identified to further strengthen governance arrangements in 2017/18. These are shown in the table below.

No.	Actions to be taken (cross-reference)	Lead Officer
1	Assurance on the delivery of the Children's Services improvement plan will be provided through regular progress updates on the work of the Quality Improvement Board and the status of the tasks. Reports will be submitted to Corporate Management Team, Cabinet, the Local Safeguarding Children's Board, and relevant Council Committees and partners. (Appendix A, paragraphs 52 and 68)	Corporate Director, Children and Young People Services
2	Implement an action plan to enable approval of the County Durham Plan within the statutory requirements and the anticipated National Planning Policy Framework. (Appendix B, action 1)	Corporate Director, Regeneration and Local Services
3	Implement revised governance monitoring arrangements for companies in which the Council has a legal interest to ensure that they are fit for purpose. (Appendix A, paragraph 27)	Corporate Director, Resources
4	Implement arrangements to ensure that the Council complies with the General Data Protection Regulations 2018. (Appendix A, paragraph 57)	Director, Transformation and Partnerships
5	Monitor the arrangements for payments to agency workers across the Council to ensure that they are effective. (Paragraph 18)	Corporate Director, Resources