

PLYMOUTH CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2009/2010

Scope of Responsibility

Plymouth 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.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Plymouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

Plymouth City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is on our website under "Constitution".

This Annual Governance Statement explains how the Council has complied with the Code and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, 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.

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 being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Plymouth City Council for the year ended 31st March 2010 and up to the date of the approval of the Annual Report and Statement of Accounts.

The Governance Framework

The internal control environment comprises all the processes and procedures in place for the sound running and well being of the Council. It is designed with the intention of:

- establishing and monitoring the achievement of the Council's objectives
- facilitating policy and decision making
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, assessing and managing the risk to the authority's objectives
- ensuring the economical, effective and efficient use of resources and securing continuous improvement in the way in which the authority's functions are exercised
- managing performance to reduce impact on the environment and managing environmental risks
- managing and reporting of financial information for the authority
- managing performance of the authority and subsequent reporting

The following is an overview of the key elements of Plymouth City Council's control environment. It is not meant to be exhaustive but indicative of the controls adopted by the Council in meeting its aims and objectives. The Council has a number of measures in place to establish and monitor its key aims and objectives and to ensure that the resources used in delivering those objectives are utilised in an economical, effective and efficient way.

As the local authority for the city, the Council takes the lead in producing a **Sustainable Community Strategy**. The Strategy acts as a framework to enable services and investments to be delivered in a more responsive, better co-ordinated and sustainable way. The Strategy is driven by "Plymouth 2020" – the local strategic partnership of public, private and third sectors tasked with setting the "vision" for the City and suggesting ways that the quality of life in the city can be improved in a number of key areas.

Plymouth's Sustainable Community Strategy 2007-20, called 'Securing the future for generations ahead' was adopted by the Council and the Board of Plymouth 2020 in April 2007 and is about to undergo a refresh.

The refreshed 2010 Local Area Agreement (LAA) 2008-2011 was approved by Cabinet in March 2010 and sets out those priorities and targets, agreed by Plymouth 2020 for the three years 2008-2011, which will deliver on the long term priorities in the Sustainable Community Strategy 2007-2020.

The Council produces a **Corporate Plan** which sets out where the council is now and its challenges and ambitions for the next three years in relation to improving the organisation, improving our customers experience and our contribution to the city priorities in the Sustainable Community Strategy.

The Corporate Plan 2010–2013 was approved by Council in March 2010. The focus remains on a list of fourteen corporate improvement priorities that require significant attention in order to achieve those ambitions. They are areas in which:

- There has been serious under-performance,
- performance varies across the council and we want to perform better as one council
- major changes are needed to meet government requirements, demographic or other challenges or

- extensive additional corporate support is needed for a time in terms of, for instance, finance, human resources, IT, legal advice, partner and other services' readjustments, change management and executive attention.

These priorities are now the focus of scrutiny by Overview and Scrutiny, Cabinet and the Corporate Management Team, allowing for more detailed examination and debate of fewer, more significant issues than has previously been possible. As this is the third year of the corporate improvement priorities programme it will be fully reviewed during 2010.

The Corporate Plan also provides the framework used by departments in developing their **Business Plans** which establish and monitor the achievement of objectives at service and team level. The Annual Audit and Inspection letter (November 2009) found that the Council had sound arrangements in place across all areas of use of resources, with particularly strong performance in managing finances. The Council's organisational assessment concluded that it performed well, that performance management arrangements are much improved and that it has the leadership, capacity and capability it needs to deliver future improvements; while the city received a green flag under Comprehensive Area Assessment for the way it works in partnership to address civil emergencies.

The **Constitution** aids the financial management of the Authority and is complemented by **Financial Regulations** and **Standing Orders**, which document protocols and procedures for members and officers in conducting the business of the Council. Ensuring the Council complies with **Law and Regulations** is ultimately the responsibility of the Assistant Director for Corporate Support (Democracy and Governance), who is the Council's statutory Monitoring Officer, and a series of controls are in place to address compliance issues.

In March 2008 the Council adopted a **Code of Corporate Governance** based on best practice as recommended by CIPFA (The Chartered Institute of Public Finance and Accountancy) and SOLACE (The Society of Local Authority Chief Executives). A self-assessment of how the Council was performing against this model framework was undertaken in 2008-09 and indicated that the Council was able to demonstrate 86% compliance with the 58 specific requirements contained in the model framework Code. The self-assessment was reviewed again in May 2009 and showed an improvement in compliance to 91%. The annual review conducted in May 2010 for the purposes of this Statement showed a further improvement in compliance to 95%.

The **Financial Management** of the Council is based upon a semi-devolved structure – the Statutory Finance Officer role rests with the Director for Corporate Support with a Head of Finance reporting to the Assistant Director for Finance, Assets and Efficiencies. A Finance Manager is based in each department.

There is a Cabinet Member with responsibility for Finance, Property, People and Governance who meets regularly with the Director for Corporate Support. Regular one to one meetings are also held with each Director and the Director for Corporate Support.

Regular, timetabled meetings are held between the Director for Corporate Support and the Assistant Director for Finance and senior finance managers who sit on the management teams of departments and provide financial management advice and guidance.

A key element of **budgetary control** is the **budget monitoring process**. For 2009/10, at the start of each month, Finance provided departmental finance reports to all budget managers. These are reviewed at the next Department Management Team meeting and

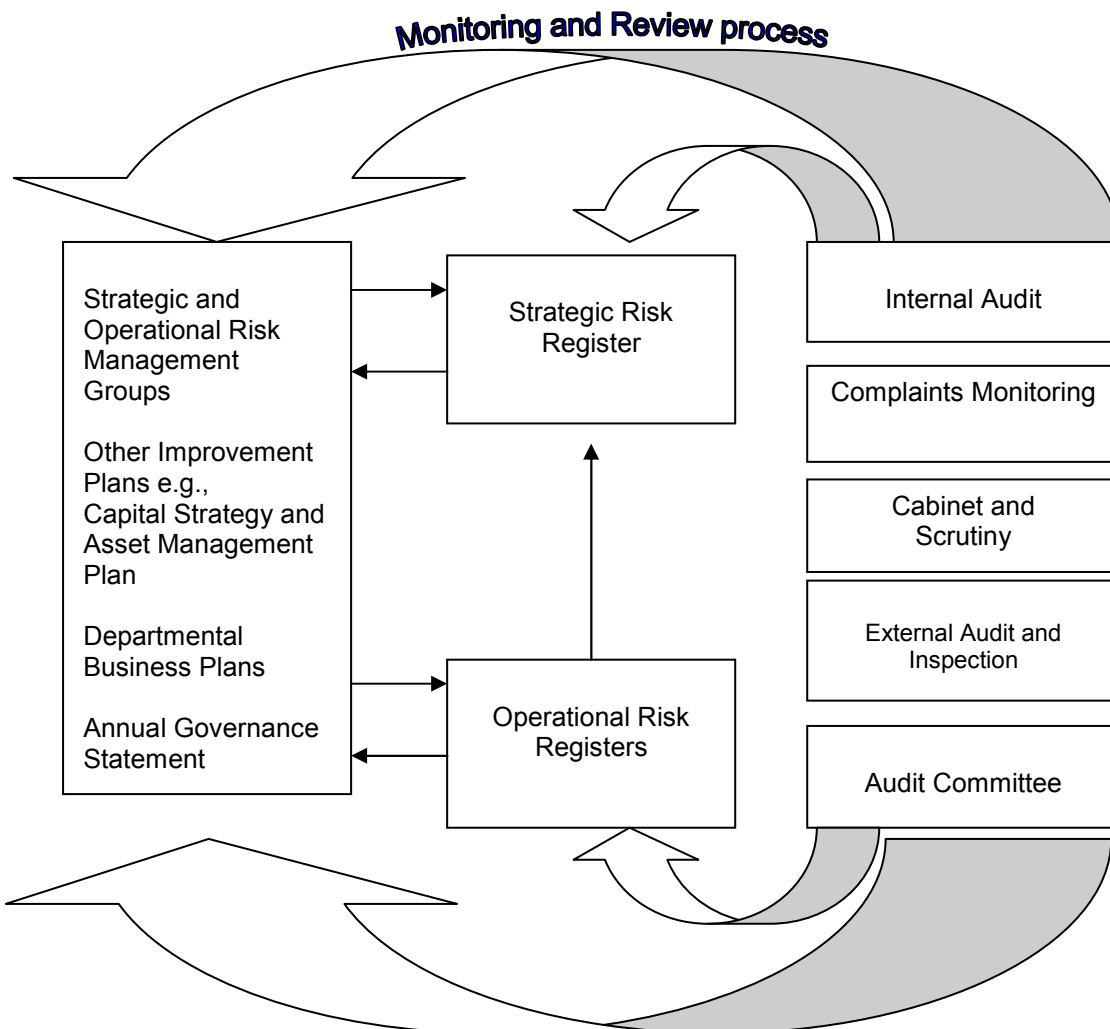
variances discussed and action taken as appropriate. Then monthly monitoring reports are made to the Corporate Management Team and to Cabinet Members with bi-monthly joint budget and performance reports to the Corporate Management Team, Cabinet meetings and to the Support Services Overview & Scrutiny Panel. For 2010/11 the bi-monthly reports will be replaced by a revised quarterly joint report.

The Finance Management Team (FMT) comprising the Finance Managers and Head of Finance meet fortnightly to manage this process and to review all financial matters.

The Council has adopted a new **Competency Framework** covering all employees as part of its commitment to ensure that there is a clear set of standards that underpins the performance, behaviours, work, knowledge and skills of its staff to help the Council deliver its vision and the key priorities in the Corporate Plan.

The Management of Risk

The overall framework for managing risk is illustrated by the following diagram:-



How the Council Monitors Risk

The Council maintains Strategic and Operational Risk Registers to record and monitor progress against the key risks which threaten the Council’s corporate and service objectives. Registers record, against each of these risks, controls which are already in

place and also identify additional controls to enhance the control environment, acting as an action plan to address and improve risks at all levels.

At a strategic level, the Council's 14 Corporate Improvement Priorities (CIPS) each have their own Risk Logs which are routinely monitored by the Corporate Management Team to ensure that threats to the delivery of key outcomes are addressed.

Objectives identified in operational level Business Plans include links where appropriate to the CIPS to ensure that each Service can identify where it contributes to the delivery of the Council's key strategic aims.

The Council invests significant resources into the management of risk through Strategic and Operational Risk Management Groups. A Risk Management Strategy and Policy Statement has been developed and risk registers are monitored using the corporate performance management system, "ePerform", which is being developed to align risks with the Corporate Plan 2010-2013 as well as creating links to Business Plans and key performance indicators.

Registers and controls are continuously monitored and are updated regularly at a departmental level and through meetings of the Strategic and Operational Risk Management Groups with Member input at Cabinet Planning and subsequent ratification at Audit Committee.

Operational Risk Registers allow departments to monitor potential risks that may threaten the delivery of their service objectives and to escalate a risk to the strategic level for inclusion in the Strategic Risk Register if it is considered to threaten the strategic objectives of the Council.

Operational Risk Registers are now being fully integrated with Service objectives in line with revised corporate Business Planning arrangements.

The authority acknowledges its responsibilities with regard to environmental risks and is taking action to identify and mitigate future impact.

The work of the Council's Civil Protection Unit, in partnership with the Local Resilience Forum, Devon and Cornwall Police and other key partners work to identify and manage potential environmental risk.

Partnerships Governance

The Council increasingly delivers services via partnership delivery mechanisms and recognises that this creates risks as well as opportunities.

Accordingly, the Council has produced a Partnerships Register which assesses each partnership for significance.

Significant partnerships have their own risk registers and risk is managed as a routine part of performance management.

In order to improve consistency and produce a standard approach to partnerships, particularly with regard to the management of risks and opportunities, the Council has produced a draft Partnerships Code of Practice which will be consulted upon with key stakeholders.

Group Accounts

Senior Officers and/or Members sit on the board of most of Plymouth City Council's main partnerships and group organisations and therefore take an active part in discussions/decisions.

Plymouth City Council has also developed formal protocols on the sharing of information and knowledge between group organisations.

These include regular meetings and working groups to prepare for and review key activities including Plymouth City Council's Group Statement of Accounts and the imminent implementation of International Financial Reporting Standards.

Group organisations have recently been asked to produce assurance questionnaires or their own governance statements to ensure robust governance arrangements are in place. These questionnaires will be reviewed by Plymouth City Council officers who will work together with the Group organisation to resolve any control weaknesses or risks.

Complaints Monitoring

The Council also addresses the management of risk through its internal complaint procedures.

The Standards Committee monitors issues raised through the Local Government Ombudsman to ensure learning and improvement to prevent repetition.

A complaints database has been developed and improvements in the reporting facilities database have helped the Council to monitor and respond quickly to its customers needs.

The Role of Audit

Internal Audit

Internal Audit undertakes an objective programme of audits to ensure that there is sound and adequate risk management and internal control in place across the whole of the City Council. It also supports the authority in accounting for and safeguarding the Council's assets and interests from error, fraud, waste, poor value for money or other losses.

Independent advice, continuous appraisal of systems and other processes are provided to all levels of management on, for example, risk identification, internal controls, anti-fraud and other corporate policies and regulations.

The scope of Internal Audit also includes new developments and government initiatives such as partnership working and other corporate governance issues.

Internal Audit forms an intrinsic part of the risk management and scrutiny function, which ensures that there are robust arrangements for monitoring and review, and that adequate processes are in place for managing the Council's internal affairs and its relationship with key stakeholders, which are required to demonstrate effective corporate governance.

Continuous review of the adequacy and effectiveness of the internal audit system is included in the terms of reference of the Audit Committee and a formal annual review is conducted by that Committee based on the Chief Auditor's annual report.

Since 1st April 2009, Internal Audit services have been provided by Devon Audit Partnership, a partnership formed by Plymouth City Council, Devon County Council and Torbay Council Internal Audit departments.

The benefits of the consortium are:-

- staff resources can be deployed more flexibly and are better able to cope with vacancies and / or ad hoc work;
- sharing of best practice and access to a larger pool of specialist knowledge;
- economies of scale e.g. training, resourcing specialist skills such as IT and contract audit;
- providing for flexible deployment if and when necessary whilst allowing staff to build up specialist knowledge of the council(s) they are working within;
- providing better opportunities for staff to further careers within the internal audit function;
- applying common technology and methodology across all teams to improve efficiency, value for money and skills.

External Audit

Grant Thornton LLP continued to provide external audit services during 2009/10. They provide improvement, assessment and assurance services. In carrying out audit work they comply with the following statutory requirements:

- The Audit Commission Act 1998
- The Code of Audit Practice
- The Local Government Act 1999
- Accountancy and Audit Regulations 2003

They work with the council on the improvement planning process to ensure that the work they perform is co-ordinated and targeted on the Council's key areas for improvement.

The Audit Commission's Relationship Manager also co-ordinates the work of other inspectors as part of this process.

Audit Committee

The Council's Audit Committee comprises five Councillors and three Independent Members supported by Devon Audit Partnership's Assistant Head of Partnership. The Committee has responsibilities with respect to both Internal and External Audit, and monitors the nature and scope of audit work performed. It reviews reports and annual audit letters with departmental management and makes recommendations to Cabinet. The Audit Committee oversees the interaction of the Council with its external auditor.

The Audit Committee has responsibility to:

- Approve, support and monitor the implementation and ongoing processes for identifying and managing key risks of the Council
- Monitor the Council's compliance with its own published standards and controls and recommend any necessary changes to Financial Regulations and Standing Orders

- Monitor the progress and performance of Internal Audit
- Consider Internal Audit's annual report and comment annually on the adequacy and effectiveness of internal control systems
- Monitor the performance of the Treasury Management function
- Review and advise the Cabinet and Council on the content of the Annual Governance Statement and Statement of Accounts
- Keep under review corporate policies e.g., the Anti-fraud Strategy

Internal and External Audit work closely together to maximise opportunities for synergy between the two services.

Overview and Scrutiny

The Council has reviewed and updated its scrutiny arrangements and has established an Overview and Scrutiny Management Board to co-ordinate the scrutiny function.

The Board challenges and supports the Cabinet and provides checks and balances by examining major policies, plans, services and financial issues. It is responsible for monitoring, reviewing, selecting and scrutinising decisions made by and on behalf of the Council. The Board is also responsible for scrutiny of the Local Strategic Partnership.

The Board is made up of nine non-executive members (appointed based on proportionality) and a co-opted representative which makes scrutiny independent of the Cabinet. The Chairs of the five Overview and Scrutiny Panels and four other Councillors carry out the work of the Board.

There are five Overview and Scrutiny Panels each of which has a responsibility for scrutiny of a particular area of Council operation. The panels also discharge the Council's statutory function with respect to scrutiny of health and police partners. When carrying out their investigations, the Panels have the authority to ask Cabinet Members and Officers of the Council to attend meetings to answer questions the Panel might have about their work, the reason for decisions and why any problems have occurred within the Council's performance.

Review of Effectiveness

Plymouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control, including a review of the effectiveness of the system of internal audit. Assurance is sought from a number of sources including a review of Internal and External Audit and Inspection reports, review of current action and improvement plans, review of internal audit arrangements by the Audit Committee and through dialogue with key officers.

The Council is subject to a number of audits and inspections. These help to inform the development of a strong control environment and to develop risk management processes. The Council has an established Risk Management Policy.

In reviewing the current control environment, reports issued by external bodies (Audit and Inspection) and reports produced by Internal Audit have been reviewed to ensure that a comprehensive assessment of the current control issues has been made and that all potential areas of significant risk are being addressed within the internal control environment.

Directors complete an Assurance Questionnaire reviewing the control environment within their Department and the results of the questionnaires have been used to inform the assessment of significant governance issues for the Council.

Significant Governance Issues

As part of the review of the effectiveness of the system of internal control the governance issues summarised below were assessed as being significant for the purposes of this Statement:

Medium Term Financial Strategy

The council revised and enhanced its MTFS in May 2010. Resource predictions and known spending commitments have been updated to reflect the likely outcome from the new Comprehensive Spending Review. We know that Council Tax levels will remain frozen for 2011/12 and that the core revenue funding of formula grant will reduce. However, the scale of this reduction will not be known until later in 2010.

The government has recently announced major reductions on grant funding for 2010/11 (approx £6.2bn nationally). This will impact significantly on both the revenue and capital funding for the council. Core investment programmes such as Building Schools for the Future remain uncertain until further clarity is provided on specific grants.

Against reduced funding, there remain a number of significant financial pressures that the council will face in the medium to long term including:

- the increased cost of waste collection and disposal;
- growing elderly population and care demand;
- increasing number of child care referrals;
- the corporate impact cost of housing stock transfer;
- increasing expectation of effective partnership working alongside a reduction in funding for our key partners;
- significant shortfall in the funding of the council's pension fund;
- un-costed contingent liabilities such as potential costs associated with contaminated land

Our ability to generate income also remains under pressure. Investment returns from cashflow remain low and key income streams such as commercial rents and council tax collection are impacted by the economic climate as is our ability to generate capital receipts from the sale of surplus assets.

Alongside existing financial pressures there is a need for significant future investment in our ICT systems. The council needs to fundamentally change the way in which it works to meet the challenging diminishing resources that we face. Better joined up systems, integrated around the customer, will be crucial.

Security of future capital funding is also a significant risk. The Council has an ambitious growth agenda. However, it is anticipated that Central Govt. Capital Grant funding will reduce whilst RDA and other grants are also reducing. There is also considerable uncertainty around potential capital receipts. Funding of the capital investment programme therefore continues to be risk assessed and closely monitored with schemes carefully prioritised against resources available.

Adult Social Care

There are significant pressures facing adult social care including a growing elderly population, an increased demand on care, a requirement to implement a personalisation agenda which ensures service users have personal budgets, and continuing work on integration across health and social care.

This is set in a context of budget pressures which require Adult Social Care to deliver a number of delivery plans and work closely with health in order to achieve challenging efficiency targets.

A Transformation Programme Board has been established for Adult Social Care and governance arrangements between health and social care are in place to monitor the issues and risks.

Civic Centre Listing

The listing of the Civic Centre as a Grade II building by English Heritage continues to have a potentially significant financial impact on the Council.

In order to properly address the impact of the Grade II Listing, the Council has been working with English Heritage and Avanti Architects, to identify the scope of a variety of potential refurbishment options for the building.

The joint EH/PCC Feasibility Study has been completed and the Council is now progressing with analysis of the Options arising from the Study. As on-going work the Council continues to inspect, repair and maintain the premises taking appropriate action, given the restrictions of the listing, to mitigate any health and safety risks.

Employee Relations

The Council faces a potentially significant risk of litigation and awards relating to employment practises. It therefore maintains an in-house resource to advise on legal matters and risks in relation to employment issues and risks. The in-house resource primarily acts on behalf of the Council for equal pay disputes, grievances and Employment Tribunal claims and case management discussions at Tribunal. No provision for successful claims has been made within the Authority's accounts although a capitalisation direction has previously been offered on the conclusion of claims through compromise agreements.

Health Inequalities

In December 2009, the Comprehensive Area Assessment identified that the Council was underperforming in reducing health inequalities, and although it did not receive a red flag this time there is a need to reduce the 13 year life expectancy gap between the healthiest and least healthy neighbourhoods.

The Council is working with the Local Strategic Partnership Health theme group on identifying and delivering actions to expand, enhance and accelerate this work in a number of key areas as a foundation to develop further actions from April 2011. This covers 5 key themes -

1. Building successful inclusive neighbourhoods that allow individuals and communities to improve their health and wellbeing
2. Improving access to high quality health and social care services
3. Reducing income inequality and the negative consequences of relative poverty
4. Increasing the opportunities for people to access the potential benefits of work and other forms of meaningful activity.
5. Making Plymouth a healthy place to live

Carefirst

In October 2009, the Audit Service issued a draft report which concluded that “fundamental weaknesses” existed within the Carefirst system. The findings of the report were accepted by the CareFirst Programme Board, now chaired by the Assistant Chief Executive on behalf of the Corporate Management Team. This has ensured that appropriate resources have been allocated to address the weaknesses identified in the control areas reviewed.

A programme of improvements is now being put in place to deliver the transformational change and efficiency gains identified in the review.

The Audit Service has completed a follow-up exercise to establish the full extent of the progress made and the review found that there were significant improvements in the governance arrangements which have had a positive influence upon all areas of internal control.

Waste PFI/Future Landfill Allowance Trading Scheme Liabilities

The Waste Public Finance Initiative (PFI) procurement is continuing well although estimated contract close is now May 2011 due to additional ISDS (Invitation to Submit Detailed Solutions) stage and Defra approval requirements. Operational commencement in 2014 is still possible although dependent on which bidder is the successful contractor and the time taken to obtain planning approval. Recent national planning failures and delays in determination have increased the risk of planning delay and of the contract not being operational by 2014. Operational delay consequences are being mitigated through the PFI contract and service continuation through landfill disposal and purchase of LATS (Landfill Allowance trading Scheme) credits although this will have a potential additional cost.

Recycling rates remained static in 2009/10, although biodegradable waste to landfill reduced in 2009/10 through waste minimisation which has ensured that PCC has remained within LAT allowances for 2009/10. However it is still forecast that even with additional recycling improvements, the Council will exceed its current LATS allowances from 2011/12 onwards and will need to purchase additional LATS credits until the new PFI solution is in place - the additional credits requirement and estimated costs of are currently being reassessed for budgeting purposes.

Partnerships

The Council increasingly delivers services via partnership delivery mechanisms and recognises that this creates risks as well as opportunities. In many instances these relationships bring additional grant funding to the Council and provide increased opportunities to improve the quality of life for the people of Plymouth.

Recognising that each partnership will require differing levels of governance depending on the complexity of the agreement, the Council has produced a Partnerships Register which assesses each partnership for significance.

Significant partnerships have their own risk registers and risk is managed through Partnership and Programme Boards as a routine part of performance management.

However, in order to improve consistency and produce a standard governance framework for the setting up and management of partnership arrangements, particularly with regard to financial implications and the management of risks and opportunities, the Council has produced a draft Partnerships Code of Practice which is due to be consulted upon with key stakeholders.

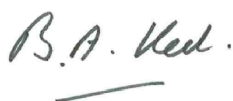
Concessionary fares

The Council adopted a new scheme based on the Department for Transport's Reimbursement Assessment Tool (RAT) as the means to reimburse bus operators who provide concessionary travel and this has reduced the risk of a successful appeal by operators. The main residual risk to the Council now is related to rising fuel costs and the economic climate potentially increasing the take up of concessionary travel.

Certification

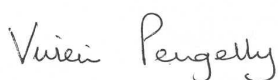
We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for further improvements that were identified in our review of effectiveness and will monitor their implementation and operation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

To the best of our knowledge, the internal control environment as defined above has operated effectively during the year.



Barry Keel
Chief Executive

Dated



Cllr Vivien Pengelly
Leader of the Council

Dated



Adam Broome
Director for Corporate Support

Dated