

1 Scope of responsibility

Hertfordshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and is 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 in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

Hertfordshire County Council's Code of Corporate Governance sets out its commitment to good governance and describes the Council's governance framework and processes. The governance principles that the Council adopts are consistent with those set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives document: *Delivering Good Governance in Local Government*:

- *Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area*
- *Members and officers working together to achieve a common purpose with clearly defined functions and roles*
- *Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour*
- *Taking informed transparent decisions which are subject to effective scrutiny and managing risk*
- *Developing the capacity and capability of members and officers to be effective*
- *Engaging with local people and other stakeholders to ensure robust public accountability.*

Hertfordshire's County Council's Code of Corporate Governance is available on the Council's internet site.

2 The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. The governance framework enables the Council 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 however it cannot eliminate all risk of failure to achieve policies, aims and objectives. The system of internal control is based on an on-going 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 Hertfordshire County Council for the year ended 31 March 2016 and up to the date of approval of this Annual Governance Statement and the statement of accounts.

3 The governance framework

The systems and processes that comprise Hertfordshire County Council's governance arrangements are set out in its Code of Corporate Governance. Key elements of the governance framework are described below.

The Council adopted its latest Corporate Plan in February 2013 which extends to 2017. The plan sets out a vision for Hertfordshire to remain a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. The plan outlines four cross-cutting themes that include key priorities for the County. The four themes are:

- Opportunity to Thrive
- Opportunity to Prosper
- Opportunity to be Healthy and Safe
- Opportunity to Take Part.

The Council's constitution sets out the rules under which the organisation conducts its business. The constitution aims to enable the Council to provide clear leadership to the community, in partnership with the public, businesses and other organisations; support the active involvement of members of the public in decision-making; help Councillors represent their constituents; enable decisions to be taken efficiently and effectively; enable decision-makers to be held to account; and ensure that decision-makers are identifiable and that reasons are given for decisions. All the annexes to the constitution were reviewed and where necessary updated during the year.

The Authority publishes an Annual Report which summarises significant developments and achievements for the period. The report sets out how the Council's finances have been applied to meet its priorities and also outlines some of the potential challenges and opportunities it will face in the coming year. The document also reinforces HCC's commitment to working with communities and providing services through methods of delivery that demonstrate its values and behaviours.

The Authority utilises a system of all-party Cabinet Panels to consider policy development for each service area. The Council has well-established scrutiny arrangements, which act to hold the executive to account by scrutinising decisions made by, or on behalf of the Council or Cabinet and any operational or policy aspect of the Council's business. Additionally, the Council's Health Scrutiny Committee considers strategic countywide health matters. Councillors are also able to scrutinise any issue which affects the County and its residents which may be outside the Council's control. Full details of the topics under scrutiny can be accessed on the Council's website. Progress on implementation of agreed scrutiny recommendations is monitored regularly.

The Integrated Plan for 2015/16 – 2017/18 sets out the Council's vision for Hertfordshire, and key outcomes toward which the Council is working. The Integrated Plan provides the associated financial and human resource plans together with information on how the Council achieves value for money in the provision of services, and the treasury management strategy. The Integrated Plan was developed through a robust review and challenge process involving both Cabinet Panel and Scrutiny.

Hertfordshire County Council works with partners through Hertfordshire Forward, the countywide strategic partnership. The Hertfordshire Forward Strategy Group draws the County's key partners and partnerships together to ensure that everyone is moving collectively in the same direction in the best interests of Hertfordshire. Membership of the Group comprises: the Leader of Hertfordshire County Council; the Hertfordshire Police and Crime Commissioner; the Chairs of the county's Health and Wellbeing Board and Local Enterprise Partnership; and the Chairman of the Hertfordshire Leaders Group (the grouping of all local authority leaders in the county).

An 'Ambition for Hertfordshire' has been developed by the Hertfordshire Forward Strategy Group and a Hertfordshire Assembly has been established, which draws together a wider range of partners to debate, shape and develop county-wide plans and strategies to consider what Hertfordshire will look like in 2050 and how they may wish to work together to respond to the changes that are likely to occur. This work is now underpinned by regular meetings of all key public sector chief executives who are overseeing the development and delivery of a cross-public sector action plan.

The Council has a well-developed risk management strategy and embedded risk monitoring processes, which operate at the highest levels of the organisation, and are overseen by the Council's Audit Committee. The risks associated with meeting budget targets are also considered as part of the integrated planning process, and then monitored in quarterly reports to Cabinet.

The Council has integrated strategic and service level performance management processes, which facilitate continuous improvement and identify and support early identification and rectification of any service delivery issues.

These arrangements are supported by the council's 'Performance Management and Development' scheme through which objectives for individual employees are set and monitored, and plans for individual development are agreed. This is underpinned by the 'Staff Development Charter', which provides a framework for assessing and meeting the learning and development needs of officers. The council has adopted a set of values and behaviours to reinforce what is expected of employees and managers.

There is an on-going Councillor development programme to support them in all their roles, with dedicated learning and development support and a system of deputy Cabinet members that facilitates succession planning. Work to support Councillors in their local work is part of the council's approach to localism; this has included development of an IT portal to provide Councillors with ready access to a wide range of information about their local communities and Hertfordshire more widely.

The Council has continued to maintain equality and diversity at the forefront of its service delivery and employment practices. The Council annually publishes evidence of its progress against the objectives contained in its Equality Strategy to demonstrate to the public of Hertfordshire how it intends to continue to meet the needs of all of Hertfordshire's communities. Equality impact assessments assess the impact of policies and proposals upon council employees and service users, and a cumulative impact assessment is carried out as part of the integrated planning process.

The Council has a whistleblowing policy which clearly sets out arrangements in place for reporting and investigating any concern relating to a deficiency or breach in the provision of services; the guidance reassures that this may be done without fear of recrimination.

The Council's internet website includes, as part of its homepage, a 'Tell Us' section that allows members of the public to:

- Submit complaints to the various directorates.
- Notify the Shared Anti-Fraud Service about suspected fraud and corruption (anonymously if required)
- Access information on current consultations, petitions etc.

The Council has designated the Assistant Director - Improvement and Technology as Senior Information Risk Owner and senior managers confirm annually their responsibilities in respect of the use of information in their services. The Information Governance Unit and the IT Security Team provide advice and guidance on this area.

The Council has an anti-fraud and corruption strategy setting out its commitment to prevent and detect fraud and corruption.

4 Review of effectiveness

Hertfordshire County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control; in practice the Council operates a continuous process of review and improvement.

The Executive, on behalf of the Council, charges the Audit Committee with keeping the effectiveness of the Council's systems for internal control under review. At its quarterly meetings the Audit Committee receives and considers reports on the Council's overall risk management arrangements and also receives reports on specific risk issues that are considered worthy of individual reporting by Internal Audit or the officers of the Council. The Audit Committee approves the internal audit plan of work and receives regular updates on progress against the plan with summaries of both assurance opinions and key matters raised in individual reviews. The Audit Committee considers the overall annual opinion on internal control provided by the Shared Internal Audit Service along with the opinions on the Council's accounts provided by external auditors.

The Council ensures corporate ownership of the Annual Governance Statement through requiring all senior managers to give an assurance on controls in place in their own service areas. A group of senior managers then meets to consider the findings of the review of governance. The draft Statement is considered at Strategic Management Board prior to signing by the Chief Executive and Leader of the Council. The Audit Committee scrutinises the Statement at its June meeting.

A review of the internal control environment in accordance with CIPFA guidance is carried out by internal audit annually and informs the Annual Governance Statement. Within this, consideration has been given to ensuring the Council's financial management arrangements conform to the governance requirements in the CIPFA statement on the *Role of the Chief Financial Officer in Local Government*.

The Head of Assurance's Annual report and opinion on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control to inform the Annual Governance Statement. The opinion of the Head of Assurance in respect of 2015/16 is one of substantial assurance in respect of both financial and non-financial systems, giving significant confidence in the effectiveness of internal control arrangements of the Council. This report also consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2015/16, and is informed by the comments of external auditors and inspectors.

In 2015/16 the Shared Internal Audit Service was subject to independent peer review which assessed the Service's compliance with the Public Sector

Internal Audit Standards and achieved the highest of the three possible conformance ratings.

Each member of the Council's leadership team has provided assurance that they have reviewed arrangements for meeting their responsibilities in relation to:

- service plan preparation and agreement
- performance monitoring and reporting
- staff resources and responsibilities
- value for money
- partnership arrangements
- risk management
- the management of new developments
- consideration of safety and environmental impacts
- financial probity, ethical conduct and reporting concerns
- actions taken in response to external inspectorate reviews
- actions taken in response to exceptions reported in 2014/15
- information and communication systems.

A review of actions undertaken in response to the significant issues reported in the 2014/15 Annual Governance Statement confirmed improvements as follows:

The Council has worked successfully with the LEP to deliver an Assurance Framework that meets the needs of all stakeholders. The financial risks associated with the Croxley Rail Link scheme were transferred to London Underground Limited who will be responsible for delivery of the scheme. The Health and Safety Executive have confirmed that the Authority has successfully complied with improvement notices relating to Hand Arm Vibration (HAVS).

Changes in the methods for delivery of the Authority's HR services have included the refresh of the Peoples Strategy which will be launched and implemented in the current year.

In respect of Section 106 monies the Authority has improved the mechanisms for accessing relevant information including a web based solution which provides detail on the locations and activities for which monies are held. The new facility was introduced via a seminar for Members which also provides an update on the Community Infrastructure Levy (CIL). Work continues on a replacement tracking system for S106/CIL monies

The Authority is moving forward with its Domestic Abuse Improvement Plan which spans multiple projects. A new domestic abuse strategy is being developed and improved governance arrangements including an Executive Board have been implemented. Further developments include an improved approach to commissioning and increased funding for the Independent Domestic Violence Advisor Service.

The Shared Anti-Fraud Service is now operational and its work has been well received by Members and Officers.

5 Specific areas for improvement and development

The review of effectiveness has identified a number of governance and internal control improvement and development activities planned for the year ahead. These are in addition to the on-going commitment that the Council makes to ensuring actions agreed in response to recommendations made by external and internal assurance providers are implemented. Actions will be progressed by managers as necessary. The more significant of the proposed activities are:

- Continued work with HCC's service delivery partner to ensure that the Authority is appropriately protected from threats of on-line fraudulent activity
- Work to ensure the correct application of self-employed status checks in relation to consultants to mitigate any potential taxation liabilities for the authority
- A review of the current policies, procedures and resources used to monitor and enforce major minerals and waste planning permissions to increase local community and Member confidence in this area.

6 Significant governance issues

The authority faces ongoing financial pressures from both the significant changes to grant funding and continuing demographic change and other pressures. The Authority's Integrated Plan reflects a gap between resources and pressures which is estimated to be £75m by 2019/20. The Authority has not yet identified the way in which this gap will be bridged although it has work in place to develop proposals to address this, as well as monitoring the delivery of the current savings proposals. Given the scale of the financial challenge, the Council will continue its work with partners to improve outcomes and lever out further efficiencies. It will continue to identify risks in this area to ensure that they are fully understood and managed or accepted as necessary.

Potential changes in education funding and legislative and regulatory reform means that the Authority will face increasing complexities in ensuring the provision of adequate school places in forthcoming years, together with some other existing statutory responsibilities; it will also need to continue the work it has begun to mitigate the risks associated with managing schools budgets where deficits are in prospect.

There has been considerable progress made in resolving the issues associated with creating a sustainable Highways Service Term Contract. This remains an area of focus for the Authority in 2016/17. A joint implementation

plan aimed at driving out efficiency and productivity improvements is being finalised which will be overseen by Senior Officers and relevant Executive Members.

There are continuing risks associated with the complexities and challenges of working effectively with partners across the County. In particular the arrangements with the NHS, where: the integration agenda; demand-related cost pressures; and administration of the Better Care Fund provide financial uncertainty. The Authority will continue its work to address this through the development of a joint medium term forward plan designed to help all parties understand the cost pressures across the whole of the local health economy.

Recruitment of staff in key operational areas remains a concern and is an issue which particularly affects: Social Care and Legal Services Staff; as well as Retained Firefighters. The Authority will continue to look at ways to address this problem which represents a risk to some aspects of effective service delivery in those areas affected. Increasing market pressure in construction is giving rise to financial and workforce pressures also.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by senior management and the audit committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined above.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Robert Gordon

John Wood

Leader

Chief Executive & Director of
Environment

XX June 2016

XX June 2016

On behalf of Hertfordshire County Council

