

# LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>	
<b>DATE OF DECISION</b>	<b>19<sup>th</sup> SEPTEMBER 2024</b>	
<b>REPORT TITLE:</b>	<b>ANNUAL GOVERNANCE STATEMENT 2023/24 AND ACTION PLAN</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>STEPHEN LAWRENCE-ORUMWENSE DIRECTOR OF LEGAL SERVICES &amp; MONITORING OFFICER JANE WEST CORPORATE DIRECTOR OF RESOURCES</b>	
<b>LEAD OFFICER:</b>	<b>STEPHEN LAWRENCE-ORUMWENSE DIRECTOR OF LEGAL SERVICES &amp; MONITORING OFFICER</b>	
<b>LEAD MEMBER:</b>	<b>CLLR JASON CUMMINGS LEAD MEMBER FOR RESOURCES</b>	
<b>DECISION TAKER:</b>	<b>N/A</b>	
<b>AUTHORITY TO TAKE DECISION:</b>	<b>N/A</b>	
<b>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]	<b>No</b>	REASON: <b>N/A</b>
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>NO</b>	
<b>WARDS AFFECTED:</b>	<b>N/A</b>	

## 1 SUMMARY OF REPORT

- 1.1** The Council must conduct a review, at least annually, of the effectiveness of its systems of internal control and prepare an Annual Governance Statement reporting on the review with the Statement of Accounts. This report sets out the Council's Annual Governance Statement (AGS) 2023/24 for the period ending March 2023 and the Statement includes the Council's significant challenges and risk, the governance arrangement and internal controls in place, and improvements required which are set out in the AGS 2024/25 Action Plan.
- 1.2** The Committee is asked to consider the draft AGS 2023/24 and the Action Plan for 2024/25; the Local Code of Corporate Governance; and the Governance Framework.

## **2 RECOMMENDATIONS**

- 2.1 The Committee is asked to consider and approve: a) the draft Annual Government Statement 2023/24 and Action Plan attached as Appendix 1; b) the Local Code of Corporate Governance attached as Appendix 2; and c) the Governance Framework attached as Appendix 3.

## **3 REASONS FOR RECOMMENDATIONS**

- 3.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and the proper standards of good governance. The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus)(Amendments) Regulations 2020, require the Council to conduct a review, at least annually, of the effectiveness of its systems of internal control and to prepare an Annual Governance Statement (AGS) reporting on the review with the Statement of Accounts.

## **4 BACKGROUND AND DETAILS**

- 4.1 The purpose of an AGS, which is published with the Statement of Accounts, is to provide an accurate representation of the Council's governance arrangements in place during the year and to identify areas where there are significant gaps or where improvements are required.
- 4.2 CIPFA Delivering Good Governance in Local Government Framework 2016 provides that the Statement:

*“7.2 ..... enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes. It should reflect an individual authority's particular features and challenges.*

*7.3 It should be high level, strategic and written in an open and readable style.*

*7.5 The annual governance statement should include:*

- *an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance.*
- *reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate.*

- *an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.*
- *an agreed action plan showing actions taken, or proposed, to deal with significant governance issues reference to how issues raised in the previous year's annual governance statement have been resolved.*
- *a conclusion – a commitment to monitoring implementation as part of the next annual review.”*

4.3 The Monitoring Officer led the annual governance review. The outcome of the review is the Annual Governance Statement (AGS) 2023/24 and is attached as Appendix 1. The AGS is a high-level overview of the significant issues affecting the Council's governance. For the ease of reference, the AGS has the following contents:

- Introduction
- Summary
- The Principles of Good Governance
- The Governance framework
- Corporate Directors Assurance Statements
- Council Priorities / Mayor's Business Plan /Transformation Plans
- Medium Term Financial Strategy 2022-2026
- SoS Directions and Improvement & Assurance Panel.
- Croydon arm's length companies
- Reports in the Public Interest
- Housing Improvement
- Performance Management
- Risk management
- Procurement
- Complaints, Fraud and Whistleblowing
- Health and Safety
- Information Governance
- Safeguarding
- Learning and Organisational Development
- Working in Partnership
- Internal Audit
- External Audit
- Peer Reviews
- Conclusion
- AGS 2022/23 Action Plan and Progress Update.
- AGS 2023/24 Action Plan

4.4 The Council's corporate outcomes and priorities are set out in the Mayor's Business Plan 2022-26 and include to balance its books and deliver good sustainable and transformative services for its residents and embed good governance across its functions and responsibilities. The Council is committed to upholding the highest possible standards of good governance to deliver on its corporate priorities.

4.5 The review considered and updated the Council's Code of Corporate Governance and the Governance Framework. The Council's Local Code of Corporate Governance

demonstrates how its governance framework that includes its constitution, policies, strategies, practices, values, and internal controls arrangement meets the CIPFA good governance framework for local government. It provides evidence based assurance that the Council is committed to: a) conducting its business in accordance with the law; b) behaving with integrity and strong ethical values; c) openness and resident engagement; d) delivering through the Mayor's Business Plan 2022-26, Croydon Improvement Plan 2022-27 and Future Croydon Transformation Plan 2024-29 sustainable finances and services and economic and social benefits to residents; e) evidencing delivery through key targets in its performance management framework; and f) effectively managing risk and performance through robust internal controls. A copy of the revised Code is attached as Appendix 2.

- 4.6 The Governance Framework is the set of structures, rules, processes, procedures, and values by which the Council is directed and controlled and through which it is accountable to, engages with and, where appropriate, leads the community of Croydon. It includes the Council's governance structure at Member level i.e., Full Council, Executive Mayor and Cabinet, Scrutiny and Overview, Ethics, Audit and Governance and other Committees, and at Officer level i.e., Chief Executive, Corporate Management Team, Directorate Management Teams, Internal Control Boards, Transformation Boards, and the role of Statutory Officers. Also, it incorporates and references relevant governance documents such as the Constitution, HR Handbook, Audit Charter, Risk Management Strategy and Project and Programme Management Framework. The revised and updated Framework is attached as Appendix 3.
- 4.7. The review found that the Council is meeting the CIPFA good governance requirements, and the governance arrangement is fit for purpose. However, there continues to be significant challenges with the Council's financial sustainability, service performance and compliance with systems of internal controls. The Opening the Books exercise revealed the depth of the financial problems such that it led to the July 2023 Direction by the Secretary of State for the Department of Levelling Up, Housing and Communities (DLUHC) and the appointment on a statutory footing the Improvement and Assurance Panel (IAP). In 2023/24, the SoS Direction and subsequent IAP Exit Strategy Action Plan has shaped the Council's journey on financial recovery, service improvement and transformation, which has continued at pace. The governance review identified the following:
  - a) The Council has accumulated £1.6bn in debt and holds significantly less value than this in terms of its disposable assets. In March 2023, for the financial year 2023/24, the SoS for DLUHC agreed in principle to exceptional financial support by way of Capitalisation Directions (CD) totalling £161.6m to meet the accumulated budget and accounting failings and errors and £63m to provide for a balanced budget following the Opening the Books programme. This combined with efficiency savings of £36m and exceptional 14.99% above cap council tax increase was required to secure a balanced budget for 2023/24.

- b) In April 2023, Grant Thornton, issued an Interim External Auditor's Report for the financial years 2019-20, 2020-21 and 2021-22 pending completion of their final assessments. The External Auditor Report's findings on financial sustainability, governance and improving economy, efficiency and effectiveness are for 2019/20 adverse conclusion expected; for 2020/21 'significant weaknesses identified', and 2021/22 'significant weaknesses identified'. The Report's recommendations were accepted by the Council and progressed and reported through the AGS 2022/23 Action Plan.
- c) In July 2023, the SoS issued Directions to the Council requiring certain actions be taken to comply with its Best Value Duty. This included action on the Council's finances, housing service and transformation. The SoS made clear it was important that the Council continued to lead its recovery. However, the SoS appointed Improvement & Assurance Panel now has the power to direct the Council if they are not satisfied with the progress being made to meet the Best Value Duty.
- d) In October 2023, the IAP in collaboration with the Council published the Exit Strategy and Action Plan which sets out the actions required of the Council to evidence compliance with the best value duty and exit statutory intervention.
- e) On 27<sup>th</sup> October 2023, the IAP reported to the SoS on the Council's progress on the Exit Strategy and concluded that the Council continues to improve, and the pace of improvement has moved up a gear, however risks remain. On 24<sup>th</sup> January 2024, the SoS responded acknowledging the need for the Council to go further to identify transformation efficiencies and reduce costs to achieve financial sustainability.
- f) In March 2024, Grant Thornton, issued its interim External Auditor's Annual Report for 2022/23 which found that there is undoubtedly improvement in the Council's overall trajectory but there are significant weaknesses in the Council's financial sustainability (*legacy debt burden, reliance on Capitalisation Directions and request for debt write off*); governance (*mapping of strategic risk to the achievement of corporate objectives and aligning Scrutiny work programme with high risk in Risk Register*) and improving economy, efficiency and effectiveness (*housing services and contract and procurement management*). The Report's recommendations were accepted by the Council and is now being progressed.
- g) On 27<sup>th</sup> March 2024, the Cabinet approved the Future Croydon Transformation Plan 2024 – 2029 which sets out the intent and commitment of the council to radically transform the way that it operates, how it delivers services to the people of Croydon and how it connects with and supports residents across the borough. This will continue to deliver the priorities in the Mayor's Business Plan and the Medium-Term Financial Strategy, saving just under £100m over the next four financial years. The Transformation Plan aligns with the IAP Exit Strategy which commits the council to demonstrate, by July 2025, it is on a path towards financial sustainability and can meet its duty of best value without government oversight. The fundamental matter of resolving the cost of debt remains to be negotiated with Government.

- h) On 25<sup>th</sup> April 2024, the IAP updated the SoS on the Council's progress on the areas of the Exit Strategy. The IAP concludes that the Council continues to make firm progress in its improvement journey. It has balanced its budget for the year just passed and has set a sound one for the current year. The Council has produced the framework of a transformation plan (Future Croydon) which should be capable of taking the Council to its declared objective of being London's most cost-effective council. The Council is steadily improving service delivery across all areas, although objective testing of this is awaited in key services. The Exit Strategy is being advanced well and the IAP are comfortable that it is either being met or, where there is a delay, there is a reason for this and that plans are in place to make up the ground.
- i) In July 2024, as requested by Central Government, the Council published its Productivity Plan setting out, amongst others, action taken to date and in the pipeline for the transformation of the design and delivery of services to make better use of resources and deliver savings.
- j) The Annual Report of the Head of Internal Audit for the year ending 31 March 2023/24 confirms that the corporate government framework complies with the CIPFA good governance requirement and risk management processes are considered effective. However, the Report provides 'Limited Assurance that the system of internal control accorded with proper practice'. 75% of internal audits of systems falls into these categories.
- k) There has been significant progress with the previous year's 2022/23 AGS action plan in respect of the following:
  - i) Financial Management (implementing the recommendations of the External Auditors Section 24 Statutory Recommendations and the Interim Report for the financial years 2019 – 22 Recommendations);
  - ii) Capital Projects and Programmes (management and monitoring of capital projects through the Capital Internal Control Board and monthly Financial Performance Report to Cabinet);
  - iii) Housing Improvements (Housing Transformation Programme delivering against the milestone agreed with the Regulator for Social Housing);
  - iv) Strengthen Governance Framework (ongoing review and updates of the Constitution);
  - v) Information Management (dealing with the backlog in subject access and freedom of information act requests to the satisfaction of the Information Commissioners Office following the Enforcement Notice in June 2023);
  - vi) Procurement and Contract Management (Procurement Improvement Plan that is bench against the LGA National Procurement Strategy);
  - vii) RIPI 2 Recommendations (completing the actions arising from the recommendations and reassurance that the learning arising from the recommendations are now fully embedded); and

viii) Secretary of State Directions to comply with best value duty (Implementing the IAP Exit Strategy Action Plan).

4.8 The review found that the Council is on the right pathway to financial recovery, improving on its service performance and the provision to residents of sustainable services. The IAP's reports to the SoS and the Council's own Productivity Plan (July 2024) attest to this. But there are still significant challenges ahead. The Council must continue to ensure compliance with its systems of internal controls combined with improvements in its service performance and the review has identified comprehensive action plans to achieve these outcomes. These are mostly contained in the IAP Exit Strategy Action Plan 2023-25, the Council's Improvement Plan 2022-27, Future Croydon Transformation Plan 2024-29, and actions in response to External Audit Reports and Internal Audit Annual Report. There are also other gaps in good governance identified in this review. They will all form part of the Action Plan in 2023/24 AGS. The delivery of these actions will be monitored through the ICBs, CMT and regular updates to the Audit and Governance Committee.

## **5. ALTERNATIVE OPTIONS CONSIDERED**

Not applicable.

## **6. CONSULTATION**

6.1 The Monitoring Officer convened a Working Group that included the Head of Internal Audit, the Head of Insurance, Anti-Fraud and risk and a nominee from each directorate, which undertook the governance review including the Code of Governance and the Governance Framework. The Chief Executive, Corporate Directors, Directors, and Heads of Service were also consulted on the key themes in the draft AGS.

## **7. CONTRIBUTION TO COUNCIL PRIORITIES**

7.1 The AGS aligns with the Mayor's Business Plan 2022-26 "Outcome 1: The Council balances its books, listens to residents and delivers good sustainable services" and "Priority 4: Ensure good governance is embedded and adopt best practice".

## **8. IMPLICATIONS**

### **8.1 FINANCIAL IMPLICATIONS**

8.1.1 There are no financial consideration arising from the Annual Governance Statement and the Action Plan. But there are significant financial and reputational risk arising from non-delivery of the Action Plan which are intended to rectify the gaps in governance identified.

## **8.2 LEGAL IMPLICATIONS**

8.2.1 The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus)(Amendments) Regulations 2020, require the Council to conduct a review, at least annually, of the effectiveness of its systems of internal control and to prepare an Annual Governance Statement reporting on the review with the Statement of Accounts. This obligation is discharged by the preparation and publication of the AGS 2023/24 and Action Plan.

8.2.2 The AGS enables the Council to demonstrate its continuous improvements towards delivering on its best value duty.

## **8.3 EQUALITIES IMPLICATIONS**

8.3.1 The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act.
- Advance equality of opportunity between people who share those protected characteristics and people who do not.
- Foster good relations between people who share those characteristics and people who do not.

The three parts of the duty applies to the following protected characteristics: age, disability, gender reassignment, pregnancy/maternity, race, religion/faith, sex and sexual orientation. Marriage and civil partnership status applies to the first part of the duty.

The Annual Governance Statement and Action Plan do not give rise to any equality implication. However, the Council has had due regard to its obligations under the Equality Act in preparing and approving the statement.

## **9 APPENDICES**

Appendix 1 Annual Governance Statement 2023/24 and Action Plan

- AGS 2022/23 Action Plan and Progress Update
- Action Plan and Progress Update in Response to the Second Report in the Public Interest

Appendix 2 Local Code of Corporate Governance

Appendix 3 Governance Framework

## **10 BACKGROUND DOCUMENTS**



