

# LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>	
<b>DATE OF DECISION</b>	<b>19<sup>th</sup> OCTOBER 2023</b>	
<b>REPORT TITLE:</b>	<b>ANNUAL GOVERNANCE STATEMENT 2022/23 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>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]	<b>No</b>	REASON: N/A
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>NO</b>	
<b>WARDS AFFECTED:</b>	N/A	

## 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) 2022/23 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 2023/24 Action Plan.
- 1.2** The Committee is asked to consider the draft AGS 2022/23 and the Action Plan for 2023/24; 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 2022/23 and Action Plan; b) the Local Code of Corporate Governance; and c) the Governance Framework.

## **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 Council's annual governance review was led by the Monitoring Officer. The review involved Council's Code of Corporate Governance and the Governance Framework which were updated.

4.4 The Code of Governance identifies how component parts of Croydon's Governance Framework that include rules, policies, procedures, protocols, practice, and values, align A copy of the revised Code is attached as Appendix 3

4.5 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 4.

4.6 The outcome of the governance review is the Annual Governance Statement (AGS) 2022/23 which is attached as Appendix 1. The AGS is intended to be a high-level overview of the significant issues affecting the Council's governance. For the ease of reference and review, the AGS has the following contents:

1. Introduction
2. Summary
3. The Principles of Good Governance
4. The Governance framework
5. Corporate Directors Assurance Statements
6. Council Priorities/Mayor's Business Plan
7. Medium Term Financial Strategy 2022-2026
8. SoS Directions and Improvement & Assurance Panel.
9. Croydon arm's length companies
10. Reports in the Public Interest and Croydon Renewal & Improvement Plan (Mayor's Business Plan)
11. Housing Improvement
12. Performance and risk management
13. Procurement & Project Management
14. Complaints, Fraud and Whistleblowing
15. Health and Safety

16. Information Governance
17. Safeguarding
18. Learning and organisational development
19. Working in partnership
20. Internal audit review
21. External audit
- 22. Conclusion**

Appendix 1 Annual Governance Statement 2022/23 Action Plan and Progress Update.

Appendix 2 Annual Governance Statement 2023/24 Action Plan

- 4.7 The review acknowledges that during 2022/23 and arising from the previous years (2021/22 and 2020/21), the Council has experienced significant challenges in its financial governance and sustainability and in the performance of its services. In response it has and continues to deliver much required transformation and improvement to the design of some services, systems, management practice and culture. Also, the Council has taken significant strides to hold to account those responsible for its financial crises. In brief, the key highlights are:
- a) In July 2022, the Executive Mayor's 'Opening the Books' project was launched. This exercise identified substantial financial accounting corrections that have had a significant impact on the Council's budget. It has also clarified how structural issues in the Council's finances, such as its level of non-asset backed debt (or negative equity) are holding the Council's financial recovery back.
  - b) In November 2022, the Chief Finance Officer issued a report under Section 114 (3) of the Local Government Finance Act 1988 that the Council's available resources were unlikely to meet planned budgetary demands in the financial year 2023/24 and beyond. There was no prospect of returning to financial sustainability without significant and different support from government above and beyond their current model of Capitalisation Directions. In December 2022, Full Council accepted the report of the Chief Finance Officer which meant the stringent financial controls through the Spend Control Panel and Recruitment Control Panels should continue, and that different financial support be sought from government.
  - c) In March 2023, the Council's External Auditors Grant Thornton published a Section 24 Schedule 7 Local Audit and Accountability Act 2014 Recommendation Report on the Council's historically inadequate arrangements and capacity in the financial years 2019/20, 2020/21 and 2021/22. The recommendations included a root and branch review of financial management in all service departments; resolve the accounting arrangements in respect of Croydon Affordable Homes; invest significant extra resource (when possible) in finance capacity, internal audit and risk management; develop an action plan to clear the three outstanding years of accounts and audit by June 2024; and ensure that the lessons learned from the former CEO's termination payments are applied to all future Chief Officer severance payments. These recommendations are being progressed by the Council through an action plan. Following the Council's review of the termination payments to the former

CEO, changes have been made to the Council's policies and practice on settlement payments.

- d) 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 is now being progressed.
- e) In February 2023, the Council published the Independent Investigation Report by Richard Penn which, amongst other issues, considered the culture, behaviours and practices of both chief officers and elected members that led to the Council's governance and financial collapse. The report makes several recommendations in respect of actions to be considered in regard to former Officers and the ex-Leader and Cabinet Members of the Council. The Council has fully acted on these recommendations.
- f) In March 2023, the Council received the Independent Report by Kroll Associates into any wrongdoing relating to the refurbishment of Fairfield Hall. This was commissioned following the publication of the Report in the Public Interest into the refurbishment of Fairfield Halls in February 2022. The Council took the necessary steps to ensure those responsible for the Council's governance and financial crises could be held to account and this included deciding to refer the Penn and Kroll reports and other appropriate reports to the Metropolitan Police and a number of individuals to their relevant professional bodies and institutes.
- g) In December 2022, the Council's Cabinet approved the Housing Transformation Programme which was endorsed by the independent Housing Improvement Board (HIB). The Programme is being implemented and is monitored monthly by Steering Board with updates to HIB, Improvement & Assurance Panel and Cabinet on a regular basis.
- h) The Annual Report of the Head of Internal Audit for the year ending March 2022/23 provided only 'Limited Assurance' that the system of internal control accorded with proper practice. Several internal audit reports have nil or limited assurance. However, the report provides that the corporate governance framework complies with the best practice guidance and that the risk management processes are effective and provide regular information on key risks and issues. These are detailed in paragraphs below.
- i) In July 2023, following the Minded to Letter in March 2023 and determination that the Council was not meeting its Best Value Duty, the Secretary of State ("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 Council continues to lead in its recovery and improvements. The SoS appointed Improvement & Assurance Panel has the power of last resort to

instruct the Council to take action to meet its Best Value Duty should they deem it necessary.

- 4.8 The review concludes that the Council has an effective decision-making and internal control arrangement designed to ensure the highest standards of good governance. The Council's governance structures at Member level (i.e., Full Council, Executive Mayor and Cabinet, Scrutiny and Overview, Ethics, Audit and Governance and other Committees), and at Officers level (i.e., Chief Executive, Corporate Management Team, Directorate Management Teams, Internal Control Boards, Transformation Boards and Statutory Officers), and the accompanying governance documents are effective. They make certain the Council conducts its business in accordance with the law and that public money is properly accounted for, as the Council work to achieve the best outcomes for residents within the resources it has.
- 4.9 Further, the Council has worked to continue to deliver the improvements required in its governance arrangements and services to residents. These are outlined in the review statement and are referred to in the 2021/22 AGS Action Plan progress update. During 2022/23 the failings in previous years (2021/22 and 2020/21) were fully analysed as part of the Opening the Books programme which revealed in great depth that the Council continues to face serious and fundamental challenges with its finances, that culminated in the SoS statutory intervention and Directions. The Council is satisfied that its governance arrangements are fit to deal with the expectations arising from the SoS Directions and other improvements required. An Action Plan has been developed for 2023/24 to address the gaps in governance identified in this Statement. The key themes for action include financial management, housing services, transformation, and information governance. The Action Plan also includes ongoing and outstanding activities to be carried over to 2023/24. 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 2022/23 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 arise to any equalities implication. However, the Council has had due regard to its obligations under the Equality Act in preparing and approving the statement.

## **9 APPENDICES**

Annual Governance Statement 2022/23

Appendix 1 AGS 2021/22 Action Plan and Progress Update

Action Plan and Progress Update in Response to the Second Report in  
the Public Interest

Appendix 2 AGS 2022/23 Action Plan

Appendix 3 Local Code of Corporate Governance

Appendix 4 Governance Framework.

## **10 BACKGROUND DOCUMENTS**