

## Draft Annual Governance Statement 2014/15

London Borough of Tower Hamlets Council (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2011.

This statement relates the financial year 2014/15. The Annual Government Statement for 2013/14 was formally signed on 23 September 2015 and the governance issues raised in that statement have been reviewed as part of the review of effectiveness the Council's governance arrangements for 2014/15 and where relevant, captured in the 2014/15 statement.

### Background

On the 4<sup>th</sup> April 2014 the Department of Communities and Local Government (DCLG) appointed PricewaterhouseCoopers LLP (PwC) to carry out an inspection of compliance by the London Borough of Tower Hamlets with the requirements of Part 1 of the Local Government Act 1999 '*in relation to the Authority's functions in respect of governance, particularly in respect of the authority's functions under Section 151 of the Local Government Act 1972*' and as they relate to the following:

- The authority's payment of grants and connected decisions;
- Transfer of property to third parties;
- Spending and decisions in relation to publicity; and
- Processes and practices relating to entering of contracts.

PwC's final report was published by the DCLG on 4<sup>th</sup> November 2014. In their report, PwC reported the Authority was not achieving Best Value in the following areas:

- The authority's payments of grants and connected decisions;
- The transfer of property to third parties; and
- Spending and the decisions of the authority in relation to publicity.

In respect of processes and practices relating to entering of contacts, PwC reported the Authority was complying with its Best Value duty but highlighted areas where the Authority could improve.

The Secretary of State for Communities and Local Government (CLG) considered the PwC report and representations from the Authority and issued Directions on 17 December 2014. Further directions were issued on 6 May 2015 in respect of the appointment of statutory officers. More information about the directions issued by the Secretary of State for CLG to the Authority and the actions to comply are included within this statement.

Full details of the directions can be found at <https://www.gov.uk/government/news/secretary-of-state-sends-in-commissioners-to-tower-hamlets>.

Tower Hamlets was required to produce in total, seven best value improvement plans, including actions arising from the electoral court judgement in respect of the Mayoral election in May 2014, as detailed below: -

- Procurement Action Plan
- Grants Action Plan
- Property and Disposal Action Plan
- Communications Action Plan
- Organisational Culture Action Plan
- Recruitment of statutory officers
- Elections

The Authority is co-operating fully with the Commissioners to ensure it complies with the directions issued by the Secretary of State for CLG and the matters raised in the PwC report, and address the issues raised as soon as possible.

A Best Value Programme Review Board has been established to monitor the progress towards implementation of the actions contained within the various improvement plans. The first public meeting of the Board was on 15 July 2015 and was chaired by the then Head of Paid Service. Subsequent quarterly meetings have been chaired by the Mayor.

The directions required the Authority to respond to the Secretary of State for CLG within three months, by developing action plans that had to be agreed with the Commissioners. Further, the directions require, the Authority provide six monthly reports to the Secretary of State for CLG. The first report was submitted on 17 September 2015, details of which can be found at

[http://www.towerhamlets.gov.uk/News\\_events/News/september\\_2015/tower\\_hamlets\\_getting\\_back\\_on.a\\_spx](http://www.towerhamlets.gov.uk/News_events/News/september_2015/tower_hamlets_getting_back_on_a_spx). Following its submission, the Secretary of State for CLG welcomed the progress the Authority had made. Further, the Secretary of State for CLG allowed the directions raised on 6 May 2015 to lapse on 31 October 2015, in light of the progress the Authority had made and the assurances received from the Commissioners. The full response can be found at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/472377/151023\\_-\\_Response\\_from\\_the\\_SoS\\_to\\_the\\_Mayor\\_of\\_Tower\\_Hamlets.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/472377/151023_-_Response_from_the_SoS_to_the_Mayor_of_Tower_Hamlets.pdf).

The second report will be provided to the Secretary of State for CLG on 17 March 2016.

## **1. Scope of Responsibility**

Tower Hamlets is responsible for ensuring 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 in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets 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. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Mayor in Cabinet and the Head of Paid Service and was most recently endorsed in June 2014.

Tower Hamlets' 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 at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of the Annual Governance Statement.

## **2. The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and 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 the governance 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 on-going process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage any such risks efficiently, effectively and economically.

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

### 3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

#### 3.1 Vision and Priorities

The Council's vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

The Council is part of the Tower Hamlets Partnership with a vision to 2020 set out in the borough's Sustainable Community Strategy, known as the Community Plan. The Community Plan has four main themes to make Tower Hamlets:

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and
- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision is the core theme of "**One Tower Hamlets**" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's Strategic Plan flows from the Community Plan and contains more detailed priorities and objectives for the Authority to deliver against. More information about the council's performance against the Plan and achievements in 2014/15 is available on the website and the 2015/16 Strategic Plan is located at [http://www.towerhamlets.gov.uk/ignl/community\\_and\\_living/community\\_plan/strategic\\_plan\\_2015-16.aspx](http://www.towerhamlets.gov.uk/ignl/community_and_living/community_plan/strategic_plan_2015-16.aspx).

The Strategic Plan is informed by the Mayor's key priorities including:

- Housing delivery and performance
- Regeneration and the creation of Sustainable Communities;
- Creating Jobs and supporting the growth of the Local Economy;
- Young People and Schools;
- Older People and Health;
- Community Safety and Community Cohesion;
- Environment and Public Realm; and
- Arts, Heritage, Leisure and Culture.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others

- Valuing diversity
- Learning effectively

There was significant consultation with local people to develop the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of the Tower Hamlets Community Plan 2011. The Plan has been refreshed and takes the Borough through to 2020. [Details of the plan can be found at \[http://www.towerhamlets.gov.uk/ignl/community\\\_and\\\_living/community\\\_plan/community\\\_plan.aspx\]\(http://www.towerhamlets.gov.uk/ignl/community\_and\_living/community\_plan/community\_plan.aspx\)](http://www.towerhamlets.gov.uk/ignl/community_and_living/community_plan/community_plan.aspx)

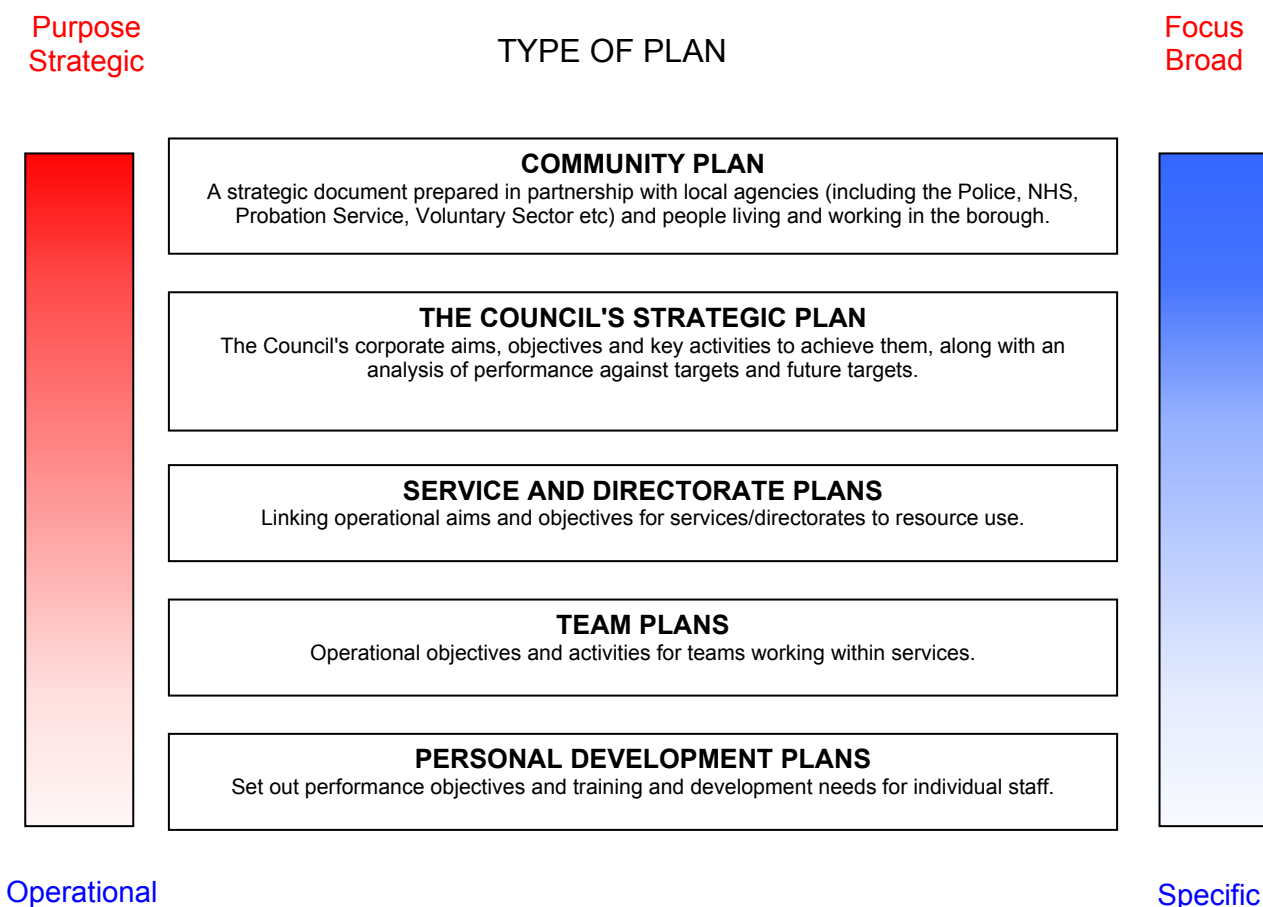
The vision, themes and priorities of the Community Plan are delivered through the Tower Hamlets Partnership structures which comprise the Partnership Executive, the Community Plan Delivery Groups (CPDGs), and localised governance structures.

The Community Plan falls within the Council’s Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that the Mayor in Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. The Plan is subject to approval by Full Council.

### 3.2 Corporate and Service Plans

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan and is structured around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by Overview and Scrutiny. The Community Plan is refreshed every three years.



The Council's vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDPs). This ensures that there is a "golden thread" that runs from the Community Plan to each individual employee's work. This helps ensure that the vision, priorities and objectives are communicated to and delivered at all levels of the organisation. Further communication of core values and key initiatives takes place through the Council's staff newsletter "Tower Hamlets Now".

### **3.3 Performance Management**

The Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and plans; and that progress against plans and targets is monitored and evaluated at all levels.

There is a mechanism by which all Council strategic performance indicators are challenged, annually risk assessed and a sample selected for testing by the performance management team supported by internal audit.

The Council's Corporate Management Team (CMT), comprising the Corporate Directors for each service (including the Council's Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan. The Cabinet and the Overview and Scrutiny Committee receive regular reports highlighting Council performance.

### **3.4 Council Constitution**

The Council has an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- the role of overview and scrutiny;
- the role and responsibilities of the Audit Committee;
- codes of conduct for councillors and employees;
- the whistleblowing arrangements; and
- members' interests and allowances.

Under the Council's constitution, the Executive is the elected Mayor, who makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his decisions the Mayor is supported by the Cabinet, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public.

There was a review of the constitution during 2013/14 which indicated that the constitution is fit for purpose and conforms to statute and best practice. The review has indicated that there are some areas of the constitution where we have options to expand or amend wording to clarify certain issues. A verbal update on the work of the Constitutional Working Party was given by the Monitoring Officer to the General Purposes Committee in September 2014. The Monitoring Officer continues to work with the General Purposes Committee to complete the constitutional review.

The Council will consider and approve any changes proposed to the key strategic policies set out in article 4 of the constitution, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the licencing policy; and
- the local development framework.

### **3.5 Codes of Conduct**

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to make a declaration at least annually. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

The responsibility to declare interests has also been extended to all tenderers and bidders as part of the procurement process. Periodically the audit plan contains reviews relating to compliance with the codes of conduct.

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

### **3.6 Rules, Regulations, Policies, and Procedures**

The Council's rules and procedure is part four of the Council's Constitution. The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as are reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

The Care Act has been one of the most significant legislative changes to affect the Authority in 2014/15. During 2013/14 the Care Act, and in particular the financial risks associated with its implementation, was identified as a significant issue. Although the Council still faces significant financial challenges going forward the services involved in the implementation of the Care Act have worked together to ensure that the issue has been managed and risks mitigated and it does not remain a significant issue for monitoring in 2015/16.

### **3.7 Overview and Scrutiny**

During 2014/15 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Mayor in Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they also consider

performance monitoring information and have a key role in reviewing and challenging the Mayor in Cabinet's budget prior to consideration at Full Council.

In 2014/15 a number of decisions were called in these included for example the Cabinet decision relating to the Drug and Alcohol Action Team (DAAT) Commissioning Intentions; Call-in of Mayoral Executive Decision Contract Award – Direct Payment Support Service and the Medium term Financial Strategy update report.

An Annual Scrutiny Report detailing the work of the Overview and Scrutiny Committee and the Health and Scrutiny Panel is approved and presented to Council annually. The 2014/15 report is included in the May 2015 agenda of the Committee.

### ***3.8 Monitoring of the Best Value Performance Plan***

As detailed earlier in this statement the PwC inspection identified best value failings in relation to three out of the four areas reviewed and although there was compliance in the contract area there were noted areas for improvement. As a result of this and the subsequent directives for each of the four areas the Council has produced a best value action plan. The Plan was submitted to the Secretary of State for CLG in March 2015. Officers responsible for these improvement areas have regular meetings with the Commissioners to review the progress against the action plan and a Best Value Programme Board, chaired by the Mayor, has been set up to monitor progress. As required by the directions this progress is then reported back to the Secretary of State for CLG every six months. The first of these progress reports was submitted in September 2015, and was received positively by the Secretary of State for CLG as referenced in the 'Background' section of this Statement.

### ***3.9 Audit Committee***

For 2014/15, the Audit Committee comprised seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the Audit Committee: Guidance for Local Authority and Police. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council's external auditor, KPMG. The Audit Committee met four times during the financial year 2014/15.

### ***3.10 Internal Audit***

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control and where relevant, recommends improvements. It also supports the management of the Council in developing its systems and providing advice on matters pertaining to risk and control. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. This report is one of the sources of assurance used in the preparation of this statement. For 2014/15, the overall the control environment was adjudged by the Head of Internal Audit to be adequate.

Following the publication of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements have been updated and the Audit Charter endorsed by the Audit Committee most recently in June 2015.

The Head of Audit & Risk reports quarterly, on a formal basis, to the Corporate Management Team on findings of audit work and investigations. He also meets as required with CMT members individually as well as other officers with roles key to the Governance Framework to discuss governance related issues. The internal audit charter, setting out the purpose and authority and responsibility of internal audit was approved by CMT and the Audit Committee in June 2015.

To support the monitoring and assurances available with regards the completion of the Best Value Action Plans the 2015/16 Internal Audit Plan includes some focused work to assess whether the milestones detailed in the Best Value Improvement Plan have been implemented. The Internal audit report for the review of the Procurement Best Value Improvement plan was presented to the Best Value Programme Board on 26 January 2016 and the internal audit reports for Communications, Property and Grants was presented on 22 February 2016.

### **3.11 External Audit**

The Council's external auditors, KPMG:

- Review the Council's accounts to ensure that they comply with statutory requirements and that proper practices have been observed in compiling them; and
- Conclude on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In 2013/14, KPMG issued an unqualified audit opinion on the Council's financial statements. In respect of whether the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, KPMG issued an adverse opinion and raised a S11 recommendation under the Audit Commission Act 1998. The recommendation was reported to the Audit Committee on 23 September 2015 in the external audit report "To Those Charged with Governance." The Authority considered the Section 11 recommendation at a meeting of the full Council on 20 January 2016, and at the General Purposes Committee on 8 February 2016.

At the Council and General Purposes Committee meetings it was agreed to accept the Section 11 recommendation and that the following courses of action would be undertaken:

- Continue with actions identified in the Best Value Action Plan in keeping with the agreed timescales.
- Set up a 'Governance Working Group' with formal Terms of Reference to thoroughly review the governance processes of the Authority.
- Construct a 'Governance Working Group Action Plan', with identifiable tasks, responsible officers and timeframes.
- Complete other items identified in the Final ISA260 Report 2013/14.
- Report progress to the General Purposes Committee and the Audit Committee on a regular basis.

Further information can be found at <http://moderngov.towerhamlets.gov.uk/documents/s81734/2016%2001%2007%20PG%20Draft%20Council%20Report%20-%20S11%20V5%20-%20legal%20v2%20Final.pdf>.

### **3.12 Whistle Blowing Policy and the Complaints Procedure**

The Council has a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of three stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards Advisory Committee.



The Mayor and elected Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

The Council also has a whistle blowing policy which is part of the Council's anti fraud and corruption Strategy. The strategy is refreshed annually and reported to the Audit Committee at its March committee. The strategy was last refreshed in March 2015. The authority plans to enhance current arrangements by promoting the Council's whistle blowing arrangements by raising awareness of the Council's whistle blowing arrangements and improving reporting.

### **3.13 Risk Management**

The Authority has a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

During 2014, Zurich Municipal Engineering supported the risk management framework by undertaking a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation and facilitating workshops with the Corporate Management Team and Directorate Management Teams. The risk team has developed an action plan and an Annual report which was also shared with the Audit Committee in June 2014. The action plan is being implemented and progress is being monitored by the Audit Committee.

### **3.14 Information Governance**

Tower Hamlets has established two groups to oversee Information Governance as a risk area and ensure robust governance arrangements are in place and adhered to across the organisation. An Information Governance Group meets six weekly to discuss issues arising and the Freedom of Information Board, which is co-ordinated by Legal Services, has overall oversight. In 2014/15 the Authority participated in a voluntary inspection by the Information Commissioners Office (ICO) to generate independent assurances with regards the arrangements in place. An action plan has been developed following this inspection and signed off by the Freedom of Information Board before being submitted to the ICO. The action plan was agreed with the ICO and monitored by the Information Governance Group.

During 2014/15 all high level Information Governance Policies were reviewed and updated.

### **3.15 Financial Management**

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected.

The Council's medium term financial plan sets out the need to deliver financial savings to 2019/2020. Arrangements have been made to identify opportunities and for the delivery and reporting of savings to CMT and Cabinet.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation

and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2014/15 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial plan incorporating an analysis of the financial risks facing the Council over the next three years and an assessment of the adequacy of General Fund and HRA reserves;
- regular reporting of actual expenditure and income against budgets and spending forecasts and service performance against targets;
- an annual Treasury Management and Investment Strategy including a prudential borrowing framework and associated indicators; and
- standing meetings of finance managers from across the Council (Finance Strategy Group and the Financial Reporting Technical Excellence Group).

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority conforms to the good practice identified within the code.

### **3.16 The Efficient and Effective Use of Resources**

As noted earlier in this statement, the authority has been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2013/14 resulted in the issue of an adverse opinion in respect of the authority's arrangements to secure value for money.

The authority has developed an action plan to improve value for money and seek continuous service improvement through a range of processes, including the application of best value principles and the carrying out of efficiency reviews as set out under the background section of this report.

During 2014/15, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency together with associated Equality Impact Assessments.

During 2014/15 residents were also consulted through the Your Borough Your Voice campaign and a series of local meetings, a survey and workshops about their views on how the council can make most effective use of resources to meet local priorities.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Cabinet Office, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Cabinet Office to test and improve the output from the NFI exercise. The findings were reported to CMT and the Audit Committee, the exercise is completed every two years.

The Council is deploying increasing innovative approaches to tackle risks to deliver value for money services. One example would be the activity to link debtors across a number of council activities to ensure the more efficient and effective use of Council resources in pursuit of the debts and to improve outcomes through a targeted approach.

### **3.17 Learning and Organisational Development**

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they are best equipped to deliver excellent public service. These include a Leadership programme, specific training relating to Recruitment and Selection, Risk Management, and computer based training.

Councillors have a member support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. For some aspects of Council work Members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### **3.18 Communication and Engagement**

The Council publishes numerous documents on its website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the Council. A review of the value for money and compliance of East End Life was requested as part of the Best Value Action Plan. Following the review, a decision was made for East End life to be published fortnightly from January 2016 and quarterly from May 2016 to bring the publication in line with the Recommended Code of Practice for Local Authority Publicity.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses a wide range of digital media to engage with a wide range of stakeholders. The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

On a more local basis the Council has a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Mayor's surgeries with community groups, local businesses and others also provide direct communication and engagement with all stakeholders.

Elected Members of the council also hold regular surgeries for their wards.

### **3.19 Partnerships**

The most significant partnership for the Council is the Tower Hamlets Partnership. In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. At a ward level Local Community Ward Forums enable local people to engage with the council and identify local priorities and projects for co-delivery.

Due to the Care Act and the drive towards more integrated services the Council has in 2014/15 been working in partnership with the Clinical Commissioning Groups, BARTs and East London Mental Health Trust. A formal partnership called the Tower Hamlets Integrated Provider Partnership has been created and the Council is committed to working to achieve shared outcomes with the members of the partnership. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

The Council has an established Arm's Length Management Organisation, Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage its housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company's Board. Performance is monitored through a regular review process with senior council officers and elected Members. The company operates its own risk management strategy and is subject to internal and external inspections and audit in compliance with the Companies Acts.

#### **4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review involved the evaluation of the key sources of assurance:

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of financial internal control.
- Performance monitoring shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- Monitoring of the 2013/14 Significant Governance Issues as well as the actions plans arising from the PwC review of best value.
- The outturn on the 2014/15 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Management Team and the Mayor's Advisory Board.
- Meetings with Corporate Management Team Members who have reviewed their own directorate governance issues and actions with their Directorate Management Teams to seek input to the issues at a corporate level.

There has also been significant work to review and improve the authority's governance arrangements and this work is considered in the process to produce this statement. An example of this is outlined below.

The Council's Overview and Scrutiny Committee established an Overview and Scrutiny Transparency Commission (OSTC). The Commission aimed to identify actions the council should take to improve transparency and find ways the council can be more transparent. The Commission considered how:

- residents be better informed about council activity, processes and decisions;
- elected members be supported to make more transparent decisions; and
- decision-makers be held to account transparently.

The Overview and Scrutiny Committee agreed its final report, at its meeting on 29 January 2016. The report contained 18 recommendations and has been presented to the Mayor for implementation.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective. We propose over the coming year to take steps to further enhance our governance arrangements.

### Significant Governance Issues

The PwC review and our own internal review of the effectiveness of the governance arrangements in place during 2014/15 has identified some areas where action is appropriate to enhance the Council’s governance framework. The significant issues and the specific actions to address that have been taken and those planned for the future are set out below and in all cases, due to the on-going monitoring of the governance framework, work is already underway to address the action points.

Each significant governance issue has an identified CMT lead who takes responsibility for progress and implementation. The actions identified within this statement form part of the performance management framework for each director and will be incorporated into their directorate performance plans.

The overall process is overseen by the Audit Committee who approves the Annual Governance Statement prior to it being signed off by the Mayor and the Chief Executive.

<b>Governance Issue and action noted as at June 2015</b>	<b>Update / further proposed action as at January 2016</b>	<b>CMT Lead and expected resolution date</b>
<p><b>1) Payments to third sector organisations outside Mainstream Grants.</b></p> <p>Internal audit received an external referral and as a result of the subsequent review found that there were irregularities in payments made by the Council to an organisation. This matter has been reviewed to the police.</p> <p>Further investigation has resulted in more organisations being referred to the police.</p> <p>The systems and processes have been improved and increased compliance work has been completed and embedded into control environment.</p> <p>Finalisation of schedule of all grant regimes by July 2015 ensures no approved grant is paid.</p>	<p>The authority continues to assist the Police with its enquiries as they arise. No further actions.</p> <p>(CLC to provide update)</p>	<p>Corporate Director, Communities Localities Culture</p> <p>April 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p><b>2) Management arrangements for the control and monitoring of grants.</b></p> <p>Following a comprehensive review of this service and its approach to audit a corporate grant function has been created to enhance consistency of approach to grant giving, monitoring and reporting across the Council. It is also anticipated that the function will ensure approved grant is only paid following proper due diligence of the organisations, and outcomes expected from the grant.</p> <p>There is a Best Value Performance Plan for Grants which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occurred throughout the financial year with the final actions to be completed March 2016.</p>	<p>A corporate grants team has been created to ensure management and control over grant giving, monitoring and reporting across the Council. The team will ensure grants are only approved following proper due diligence of the organisations, and outcomes expected from the funding.</p> <p>There is a Best Value Improvement Plan for Grants which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones in the best value performance plan final actions to be completed March 2016.</p>	<p>Corporate Director - Resources</p> <p>March 2016</p>
<p><b>3) Strengthen controls over disposal of assets that demonstrate best value is secured by the Council.</b></p> <p>Following the inspection disposal of assets is part of the Best Value Action Plan – Improvements to process have been made. Currently the Commissioners have the relevant Executive Powers. An assurance has been agreed by cabinet and embedded in financial regulations. A report has been provided to CMT.</p> <p>Internal Audit work in this area also generated actions which have been implemented.</p> <p>Arrangements are being made to improve the outcomes for the Council from its assets which</p>	<p>The Council's Asset Management strategy was reviewed and approved by Cabinet in December 2015, including arrangements to demonstrate value for money in disposal of assets.</p> <p>There is a Best Value Performance Plan for Property which contains a number of actions to strengthen governance arrangements. Final actions to be completed</p>	<p>Corporate Director - Development and Renewal</p> <p>March 2016</p>

<b>Governance Issue and action noted as at June 2015</b>	<b>Update / further proposed action as at January 2016</b>	<b>CMT Lead and expected resolution date</b>
<p>require the asset management strategy to be reviewed and approved by Cabinet.</p> <p>Audit work will provide assurances with regards compliance.</p> <p>There is a Best Value Performance Plan for Property which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed March 2016.</p>	<p>March 2016.</p>	
<p><b>4) To make suitable permanent appointments to the posts designated as statutory officers of the Council.</b></p> <p>All statutory officer posts are in various stages of the appointment process with a view to making permanent appointments as soon as possible.</p> <p>The Authority has complied with the directions, by agreeing the design. For two of the three statutory roles the new post holder will start July. For the Head of Paid Service/Chief Executive role it is expected to be by September.</p>	<p>All three Council statutory officers were appointed to as follows:-</p> <p>Chief Executive – October 2015</p> <p>Chief Financial Officer – August 2015</p> <p>Monitoring Officer – August 2015</p>	<p>Completed</p>
<p><b>5) Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.</b></p> <p>The Local Government Association reviewed the Council's constitution and indicated that the constitution is fit for purpose and conforms to statute and best practice. Further, recognising that there may be areas where the authority may learn from other authorities with an Executive Mayor, an independent external review was also commissioned comparing the Council's constitution with those of similar local authorities. This review confirmed there were no fundamental weaknesses of gaps in</p>	<p>Actions are included within the BVAP for organisation culture action plan. It is anticipated the majority of the work in this area will be completed by March 2016, although there will be on-going review and update of the constitution there after as part of the usual business of the Authority.</p>	<p>Monitoring Officer – Law Probity and Governance</p> <p>March 2016</p>

<b>Governance Issue and action noted as at June 2015</b>	<b>Update / further proposed action as at January 2016</b>	<b>CMT Lead and expected resolution date</b>
<p>the Council's constitution. There are opportunities to word elements more clearly or tighten up some areas of process to enable the Executive and non-Executive business to run more smoothly.</p> <p>The work to review the constitution commenced in 2014 but is not yet complete.</p> <p>There were some minor issues around scheme of delegation raised through audit work in 2014/15.</p> <p>External Review of Virements was completed in 2014.</p> <p>Review of the constitution.</p> <p>Review of the Schemes of Delegation and implementation of an annual review process which will be confirmed as part of the annual governance processes embedded within the organisations governance framework.</p> <p>It is anticipated the work in this area will be completed by March 2016, although there will be on-going review and update of the constitution there after as part of the usual business of the Authority.</p>		
<p><b>6) Elections</b></p> <p>Elections in Tower Hamlets are always vigorously contested and a recent election petition judgement found no wrong doing by the Returning Officer but did result in the Mayor being removed from the office.</p> <p>The Electoral Commission made various recommendations about improving the trust and confidence in the integrity of May 2014 elections, which have been implemented.</p> <p>The Electoral Commission has reviewed progress in the implementation of the recommendations and has strongly supported the steps that have been taken.</p> <p>In preparation for the 2015 general election, further action is planned to tighten up</p>	<p>Steps taken to implement milestones in the best value action plan. For the 2015 Mayoral election, a report was presented to the General Purposes Committee setting out what went well and areas for improvement.</p>	<p>Completed</p>



<b>Governance Issue and action noted as at June 2015</b>	<b>Update / further proposed action as at January 2016</b>	<b>CMT Lead and expected resolution date</b>
<p>procedures around registration for, and management of postal votes. Other actions include; joint on-going working between the Returning Officer and police to deter and detect electoral fraud; local protocol committing all those involved in May 2014 elections to work towards free and fair elections; pre-election guidance reviewed and issued to all managers, staff and members and pre-election restrictions from 14 April including complete review of Council website and other publicity.</p> <p>There is a Best Value Performance Plan for Elections which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones were identified leading up to May 2015 and where required, the date of the elections.</p> <p>The actions identified were implemented for the Mayoral elections on 11 June 2015.</p>		
<p><b>7) Enhance contract management and contract letting process.</b></p> <p>The Procurement Strategy and procedures have been refreshed and adopted.</p> <p>To ensure compliance around procurement, the Competition Planning Forum and the Competition Board continue to monitor and recommend the best course of action for all significant purchases.</p> <p>The new procedures now provide greater visibility and input from the Corporate procurement team and over the next financial year, the team plan to seek better outcomes from the organisation's spend and enhance contract monitoring arrangements across the organisation.</p> <p>There is a Best Value Performance Plan for Procurement which contains a number of actions to strengthen governance arrangements.</p>	<p>Monitoring of the Best Value Performance Plan for Procurement which contains a number of actions to strengthen governance arrangements final actions to be completed April 2016</p>	<p>Chair of Competition Board and Corporate Director, Resources April 2016</p>

<b>Governance Issue and action noted as at June 2015</b>	<b>Update / further proposed action as at January 2016</b>	<b>CMT Lead and expected resolution date</b>
<p>Future planned actions include an Annual Procurement Report, three year strategy and Supplier Ethical Code of Conduct.</p> <p>Deadlines and milestones occurred throughout the year with the final actions to be completed April 2016.</p>		
<p><b>8) Review, and where necessary, enhance arrangements around declarations of interests.</b></p> <p>The Council has in place arrangements for declarations of interests. The existing arrangements will be reviewed to ensure staff and members are aware of their responsibility and Council procedures and processes strengthened to identify potential interests.</p> <p>Mandatory training will also be provided to ensure staff and members complete their declarations in a timely manner.</p>	<p>The council's policies, procedures and processes have been reviewed.</p> <p>Officers are required to complete declaration of Interest forms on a 6 monthly basis as part of the PDR process and the form is accessible via the self-service HR module.</p> <p>A list of organisations receiving financial assistance from the authority is being compiled to guide Members and Officers in making their declarations.</p> <p>Annual mandatory training is continuing to be provided for all members. The regular review of forms includes a reminder to ensure interest declarations are complete and up to date. In relation to officers, regular reminders continue to be issued to staff to update their online declaration forms.</p>	<p>Completed</p>
<p><b>9) Review the Council's Section 106 arrangements.</b></p> <p>The Council's external auditors highlighted a</p>	<p>Grant Thornton were appointed to carry out an independent review. Grant Thornton has</p>	<p>Corporate Director, Development and Renewal and Corporate Director,</p>

<b>Governance Issue and action noted as at June 2015</b>	<b>Update / further proposed action as at January 2016</b>	<b>CMT Lead and expected resolution date</b>
<p>number of control issues in the administration of the Council's S106 arrangements.</p> <p>An independent review of the arrangements in relation to s106 receipts and payments will be undertaken to ensure effective and robust processes, controls, monitoring and reporting arrangements are in place, in accordance with agreements and aligned with the planning consents.</p>	<p>completed its review and has issued a draft report for management comment before finalising the report in April 2016.</p>	<p>Resources</p>
<p><b>10) Strengthen Internal Controls over Mayoral Expenses.</b></p> <p>A review by the Council's external auditors highlighted supporting documentation is not always retained for expenditure relating to the Mayor's Office.</p> <p>Existing arrangements will be reviewed and contracts subject to management review to ensure all supporting documentation is properly retained and maintained in line with the Council's Financial Procedures.</p>	<p>Systems are in place to ensure that sufficient supporting documentation is retained.</p>	<p>Completed</p>
<p><b>11) Governance of the Council</b></p> <p>In their annual report to those charged with Governance (ISA 260) for 2013/14, the Council's external auditors have raised a recommendation under S11 of the Audit Commission Act in respect of governance processes in the Council.</p> <p>The Council will be required to respond to the recommendation at a public meeting at a date and time to be agreed.</p> <p>The Council is already taking a number of actions in respect of its governance arrangements and compliance with those arrangements. The response to the S11 recommendation of the external auditor will be made taking account of those actions.</p>	<p>A full report was provided to Full Council including recommendations and a section 11 notice has been issued. Recommendations were endorsed and an action plan is in place.</p>	<p>Corporate Management Team</p> <p>March 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p><b>12) Governance arrangements at schools</b></p> <p>Following internal audit findings from regularity audits of schools and external referrals alleging irregularity at some schools, the governance arrangements are being reviewed with a view to ensuring sound practices are in place.</p>	<p>The latest guidance issued to schools and governors.</p> <p>Training and guidance on Governance Arrangements has been delivered to both Governors and Schools business managers. The governor conference was attended by over 50 governor representatives.</p> <p>It is also planned to be further enhanced by direct support to those schools which have been identified in internal audit reports as consistently receiving limited assurance through additional workshops delivered by Mazars/Schools Finance; to emphasise the previous messages which have already been delivered.</p>	<p>Completed</p>
<p><b>13) Publicity Expenditure Controls</b></p> <p>This issue was identified during the inspection and the Authority subsequently received directions relating to publicity expenditure.</p> <p>A new Strategy and Protocol documents has been produced and a fully costed communications plan is now in place.</p> <p>There is a Best Value Performance Plan for Communications which contains a number of actions to strengthen governance arrangements.</p> <p>A new system and implementation of a testing regime to ensure compliance with relevant</p>	<p>There is a Best Value Performance Plan for Communications which contains a number of actions to strengthen governance arrangements.</p> <p>Future planned actions include a new system and implementation of a testing regime to ensure compliance with relevant code and other requirements.</p> <p>Deadlines and milestones</p>	<p>Monitoring Officer – Law, Probity and Governance</p> <p>March 2016</p>

<b>Governance Issue and action noted as at June 2015</b>	<b>Update / further proposed action as at January 2016</b>	<b>CMT Lead and expected resolution date</b>
code and other requirements.  Deadlines and milestones occurred throughout the financial year with the final actions were completed December 2015.	occur throughout the financial year with the final actions to be completed March 2016.	

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 improvement that were identified in our review of effectiveness and will monitor progress periodically and confirm their implementation and operation as part of the process to produce the 2015/16 Annual Governance Statement.

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Chief Executive

Date:

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Mayor

Date: