

PROVISIONAL DRAFT Annual Governance Statement (AGS) 2021-22

1. INTRODUCTION

Leicestershire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation and government guidance and that proper standards of stewardship, conduct, probity, and professional competence are set and adhered to by all those representing and working for and with the Council. This ensures that the services provided to the people of Leicestershire are properly administered and delivered economically, efficiently, and effectively. In discharging this responsibility, the Council must have in place a solid foundation of good governance and sound financial management.

Regulations 6 (1) (a) and (b) of the Accounts and Audit Regulations 2015 require each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement (AGS), prepared in accordance with proper practices in relation to internal control. The preparation and publication of an AGS, in accordance with the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework' (2016), fulfils the statutory requirement of the Accounts and Audit Regulations. The AGS encompasses the governance system that applied in both the Authority and any significant group entities (e.g. ESPO, EMSS) during the financial year being reported.

Due to the impact of coronavirus (COVID -19) on Local Authorities, The Accounts and Audit (Amendment) Regulations 2021 amended the 2015 Regulations to extend the deadlines for relevant authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year beginning on 1st April 2020 and 2021. The draft AGS 2021/22 is scheduled to be published with the draft Statement of Accounts by the end of June 2022.

2. WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The Council's governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The Chartered Institute of Public Finance and Accountancy (CIPFA) 'Delivering Good Governance in Local Government; Framework (2016)' sets the standard for local authority governance in the UK and the Council is committed to the principles of good corporate governance contained in the Framework.

The Council has developed, adopted, and continued to maintain a Local Code of Corporate Governance which sets out the way the Council meets the principles outlined in the Framework.

<https://www.leicestershire.gov.uk/about-the-council/how-the-council-works/leader-and-cabinet/corporate-governance>

3. LEICESTERSHIRE'S VISION AND OUTCOMES

In July 2020 the Council agreed an update to its Strategic Plan to 2022 to reflect its declaration of a climate emergency. That Plan strengthened the Council's commitment to protect the environment and tackle climate change. The five strategic outcomes in the Plan were: -

- Strong Economy - Leicestershire's economic prosperity benefits everyone and supports resilient, clean growth.
- Affordable and Quality Homes - Leicestershire has a choice of quality, sustainable homes that people can afford.
- Wellbeing and Opportunity – that the people of Leicestershire live in a healthy environment and have the opportunities and support they need to take control of their health and wellbeing.
- Keeping People Safe – that people in Leicestershire are safe and protected from harm; and
- Great Communities – that Leicestershire communities are thriving and integrated places where people help and support each other and take pride in their local area

The five priority outcome themes encompassed a number of supporting outcomes which together formed the overall Single Outcomes Framework which set priorities for the Authority and enabled more effective deployment and targeting of its resources. The Annual Delivery Report and Performance Compendium (published December 2021) included an assessment of progress in relation to the Outcomes Framework.:

<https://www.leicestershire.gov.uk/about-the-council/how-the-council-works/leader-and-cabinet/council-performance>

The County Council's Annual Delivery Report and Performance Compendium for 2021 is part of the Council's policy framework and, as such, required the approval of the full Council. The documents provide performance data which will help the Council and its partners to ensure services continue to meet standards, provide value for money and that outcomes are being achieved for local people. It is best practice in performance management, implicit in the Local Government Association (LGA) Sector-Led approach to local authority performance and part of the Council's Internal Governance Framework, to undertake a review of overall progress at the end of the year and to benchmark performance against comparable authorities. It is also good practice to produce an annual performance report and ensure that it is scrutinised, transparent, and made publicly available.

The Annual Delivery Report, described delivery, progress with implementing agreed plans and strategies, and achievements over the previous 12 months. It largely focused on performance against County Council priorities for community outcomes as set out in its Strategic Plan 2018-22 and other main service strategies. The Report also included information on the Council's significant ongoing response to the Covid-19 pandemic, the emergent implications for service demand and outcomes, higher levels of service and financial risk and work on service recovery. The Performance Compendium outlined the inequality in funding and the Council's Fair Funding proposals, transformation requirements and national and local service pressures, as well as detailed comparative performance metrics.

On 26 October 2021, the Cabinet approved the draft Strategic Plan (2022-26) for consultation. The council consulted a wide range of stakeholders including council officers and elected members, citizens, community groups and partners to identify the extent to which there was agreement with its long-term vision for Leicestershire and its priorities for 2022-26. The consultation included a public survey, interactive presentations including live polls and direct engagement through meetings and focus groups.

At its meeting on 29 March 2022, the Cabinet resolved: -

- a) That the outcome of the consultation on the Council's draft Strategic Plan 2022-26 be noted;
- b) That the draft Strategic Plan (2022-26), be submitted to the County Council for approval on 18 May 2022.

<https://www.leicestershire.gov.uk/about-the-council/council-plans/the-strategic-plan>

The Strategic Plan (2022-26) will provide an important strategic planning framework for the Council which will ensure that all service plans and strategies contribute to delivery of the Council's vision for Leicestershire. It has the following five priority outcome themes:

Our Vision: An inclusive county in which active communities, great connections and greener living enable everyone to prosper, be happy and healthy.				
Strong Economy, Transport & Infrastructure	Improving Opportunities	Keeping People Safe & Well	Great Communities	Clean, Green Future
Leicestershire has a productive, inclusive and sustainable economy and infrastructure which meets the demands of a growing population and economy.	Every child gets the best start for life with access to a good quality education and everyone has the opportunities they need to fulfil their potential	The people of Leicestershire are safe and protected from harm and have the opportunities and support they need to take control of their health and wellbeing	Leicestershire has thriving, inclusive communities in which people support each other and participate in service design and delivery	The environment is protected and enhanced, and we tackle climate change, biodiversity loss and unsustainable resource usage

In February 2022 the Council received confirmation that it had been successful in its bid to bring devolved power to the county, part of the Government's Levelling Up White Paper. The 'County Deal', which is still to be agreed, will provide local government to have a greater say over local services and funding, matters which affect everyone in Leicestershire.

4. WHAT THE AGS TELLS YOU

The AGS reports on the extent to which the Council has met the requirements of the Local Code of Corporate Governance and how the controls it has in place manage¹ risks of failure in delivering its outcomes. The main aim of the AGS is to provide the reader with confidence that the Council has an effective system of internal control that manages risks to a reasonable level. The 2021/22 AGS has been constructed by reviewing and updating: -

- The effectiveness of the system of internal control
- Other forms of assurance
- The Council's response to (and recovery from) the COVID-19 virus
- Action taken on significant governance issues reported in the 2020/21 AGS
- Significant governance issues arising during 2021/22

¹ 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.

- Future challenges
- Areas for further development (Annex)

5. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

To ensure the 2021/22 AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure conformance (or otherwise) with the seven core principles of the Local Code of Corporate Governance. **The AGS assesses governance in place during 2021/22, the Council's self-assessments were completed in April 2022 and therefore the whole of the year continued to be affected by the COVID-19 national emergency.**

A senior officers group meets to review the compilation of the AGS. The group comprises

- Director of Law & Governance (the Council's Statutory Monitoring Officer)
- Director of Corporate Resources (the Council's Statutory Chief Financial Officer)
- Head of Democratic Services
- Assistant Chief Executive
- Assistant Director – Assistant Director Finance, Strategic Property & Commissioning
- Assistant Director – Corporate Services
- Head of Internal Audit & Assurance Service

The group has determined that progressing areas identified for development, should be the responsibility of designated Directors and Heads of Service during 2022/23. A review of progressing the implementation of previous years planned developments will be undertaken. Any previous year's developments that were not carried forward into 2021/22 or reported through the Corporate Risk Register process will continue to be monitored.

6. OTHER FORMS OF ASSURANCE

The Framework provides examples of documents, systems and processes that an authority should have in place. Using this guidance, the Council can provide assurance that it has effective governance arrangements. The Council has an approved Local Code of Corporate Governance, and this provides examples of good governance in practice.

The Control Environment of Leicestershire County Council

The Council's Constitution includes Finance and Contract Procedure Rules and Schemes of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices, and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council.

Internal Audit Service

The Council's Head of Internal Audit & Assurance Service (HoIAS) ensures that internal audit arrangements conform to the requirements of the Public Sector Internal Audit Standards (the PSIAS) revised in 2017 and the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019).

The HoIAS works with the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service (IAS) so that it makes a full contribution to and meets the needs of the Authority and external

stakeholders, escalating any concerns and giving assurance on the Council's control environment.

There is an Internal Audit Charter mandating the purpose, authority, and responsibility of the internal audit activity. The Charter allows the HoIAS to also be responsible for the administration and development of, and reporting on, the Council's risk management framework. Whilst this does present a potential impairment to independence and objectivity, the HoIAS arranges for any reviews to be overseen by someone outside of the internal audit activity. An independent risk management maturity health check was undertaken during the autumn of 2018 and good progress continues to be made against the recommendations. The next review is planned in the Spring/Summer 2022.

To meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of the Council's control environment i.e. its framework of governance, risk management and control, the HoIAS arranges a risk-based plan of audits. In July 2021 he informed the Corporate Governance Committee that he had moved to shorter planning periods of 6 months which is in line with his peers in other Councils.

IAS reports often contain recommendations for improvements. The number, type and importance of recommendations determines how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. involvement in governance groups, attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's the control environment. The HoIAS presented his annual report to Corporate Governance Committee on 13 May 2022 and his opinion read: -

Covid-19 and other staff absences and unplanned vacancies (along with a corresponding difficulty to recruit) caused some disruption to resources, nevertheless the HoIAS considers there was just sufficient input across the control environment to be able to give a full opinion. He gained internal assurance from senior management's transparency over reporting two significant governance issues in the draft AGS and risk positions in the Corporate Risk Register. Three audits returned partial assurance ratings, and there were some minor fraud investigations, but management responded to recommendations. Overall, reasonable assurance is given that the Council's control environment has remained adequate and effective.

The HoIAS' views on the Council's responses to the coronavirus during the year are also detailed.

Risk Management

The Corporate Governance Committee has a responsibility to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid decision making relating to the development of services and the transformation of the wider organisation. Regular reports and presentations on specific strategic and corporate risks to the Council are provided to the Corporate Governance Committee.

The Council's Risk Management Policy and Strategy (which provide the framework within which risks can be managed) were reviewed, revised, and approved by Cabinet in February 2022.

As the COVID-19 response continued, the Council progressed with its plans to recover and rebuild services, towards a 'new normal'.

Overview and Scrutiny

The cross-party overview and scrutiny function monitors the County Council's financial performance and performance against targets in the Strategic Plan and other related plans on a regular basis.

The key areas of activity undertaken by the Scrutiny Commission during the year included: -

- Annual Report on the Commercial Strategy
- Draft Overview and Scrutiny Annual Report 2020/21
- Update on Police and Crime Panel Activity
- Corporate Complaints and Compliments Annual Report
- Leicester and Leicestershire Economic Growth Strategy
- Consultation and Engagement Principles & the Consultation Charter
- Corporate Asset Investment Fund Annual Report 2020/21
- East Midlands Shared Service Annual Update
- Leicester and Leicestershire Enterprise Partnership Update
- Strategic Planning and Growth Related Matters
- Engagement and the Outcome of Consultation on the Council's Strategic Plan 2018-2022
- Draft Communities Strategy – Leicestershire
- Leicestershire Domestic Abuse Reduction Strategy 2022-2025
- Annual Delivery Report and Performance Compendium 202
- Partners Group private debt fund, and the JP Morgan Infrastructure investment fund
- Medium Term Financial Strategy and budget monitoring
- Report of the Scrutiny Task and Finish Group on the Council's Corporate Ways of Working Programme
- Corporate Ways of Working Programme - Delivery of Financial Savings

The challenge of overview and scrutiny has always been crucial in supporting the delivery of high-quality services. This work has continued throughout 2021/22 with meetings reverting to being held at County Hall and webcast simultaneously.

Corporate Governance Committee

The Corporate Governance Committee is responsible for promoting and maintaining high standards of corporate governance within the Council and receives reports and presentations that deal with issues that are paramount to good governance.

With regard to the promotion and maintenance of high standards of conduct by members and co-opted members within the County Council – decisions and minutes are available on the intranet. The Monitoring Officer submits an annual report to the Corporate Governance Committee on the operation of the Members' Code of Conduct and arrangements for dealing with complaints.

Since April 2020 there have been six complaints (relating to four members) received by the Monitoring Officer under the Members' Code of Conduct. These complaints were resolved as set out below:

- 1 complaint was withdrawn /not progressed by the complainant,
- 1 complaint was considered by the Member conduct panel,
- 4 complaints did not meet the threshold for further investigation as set out in the scope of the code of conduct

During 2021/22 the Committee has provided assurance that: an adequate risk management framework is in place; the Council's performance is properly monitored; and that there is proper

oversight of the financial reporting processes. The table overleaf provides summary information of other key business considered by this Committee during 2021/22 to support the above.

- Quarterly Risk Management Updates and the Risk Management Policy & Strategy
- Informing the External Audit Risk Assessment External Audit Plan (2020/21), Auditor's Annual Report, Statement of Accounts, Pension Fund Accounts and Annual Governance Statement 2020/21; Appointment of External Auditor
- Quarterly Treasury Management updates and Annual Treasury Management Report 2020/21. Treasury Management Strategy Statement and Annual Investment Strategy 2022/23
- Changes to the Contract Procedure Rules, Supplier Code of Conduct
- Internal Audit Service – quarterly progress reports including status of High Importance recommendations; Annual Report, including opinion on the control environment, conformance to PSIAS and Quality Assurance Improvement Programme; Internal Audit Service Plans 2021/22
- Government driven developments in local (external) audit arrangements and update reports
- Revised Members' Code of Conduct and Protocol on Member/Officer Relations.
- Annual Reports:
 - Annual Report on the Operation of the Members' Code of Conduct 2020/21
 - Clinical Governance Annual Report
 - Local Government and Social Care Ombudsman Annual Review 2020/21 and Corporate Complaint Handling and Freedom of Information Requests
 - Resilience and Business Continuity Update
 - Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act 2016

The Chief Financial Officer (CFO)

The Director of Corporate Resources undertakes the statutory role of the Chief Financial Officer (CFO) for the Council. The CFO conforms to the governance requirements and core responsibilities of two CIPFA Statements on the Role of the Chief Financial Officer; in Local Government (2016) and in the Local Government Pension Scheme (2014). The CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long-term implications, opportunities, and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council.

More detail is provided in the Narrative Report section of the Council's Financial Statements.

The Monitoring Officer

The Director of Law & Governance undertakes the statutory role of Monitoring Officer (MO) for the Council. The MO has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful. Where in the opinion of the MO any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Council and/or Executive accordingly,
- ensuring that decisions taken are in accordance with the Council's budget and its Policy Framework,
- providing advice on the scope of powers and authority to take decisions

In discharging this role, the MO is supported by the Deputy Monitoring Officer and officers within the Legal and Democratic Services Teams.

Senior Information Risk Owner

The Assistant Director - Corporate Services undertakes the role of Senior Information Risk Owner (SIRO) for the Council. The SIRO takes overall ownership of the Council's approach to handling information risk. Sound governance is in place, with regular update and exception reports to the Corporate Management Team. The responsibilities of a SIRO include:

- owning the Council's policies, procedures and processes around information risk, ensuring they are implemented consistently across the Council.
- ensuring compliance with all other policies and procedures relating to information and data.
- acting as a champion on information risk and report to Chief Officers on the effectiveness of risk management.
- leading and fostering a culture that values, protects and uses information for the success of the Council and benefit of our citizens.
- ensuring that information owners understand their roles.
- ensuring that the Council has a plan to monitor and improve information and data governance.
- maintaining expertise in Data Protection and other legislation that impact on Information and Data Governance; and
- owning the Council's information incident management framework

Commercial and Collaborative Arrangements

Commercial

ESPO is constituted as a joint committee (of 6 local authorities) set up to provide a comprehensive professional purchasing service to public sector bodies. It is overseen by a Management Committee which has overall strategic responsibility for ESPO. There is also a Finance and Audit Subcommittee in place. Internal audit is undertaken by the Council's Internal Audit & Assurance Service as part of the servicing agreement. Similar to the County Council, the HoIAS presents an annual report to the Management Committee. The annual report incorporates the annual internal audit opinion, which for 2021-22 was as follows:

Aside from the partial assurance rating given following the audit of cyber security arrangements, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

ESPO Trading Ltd ESPO's power to trade is restricted to a limited number of public bodies and this market is shrinking. The establishment of a trading company allows ESPO (Trading) to trade with other organisations which are in the spirit of public bodies but not described as such in the 1970 Act – e.g. Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

Eduzone was a private limited company that supplies Early Years educational products and Early Years furniture to schools, nurseries and child minders. ESPO acquired the company following the necessary due diligence in 2018. Eduzone has now been incorporated into ESPO Trading Limited.

With the worst of the disruption to customers caused by the covid-19 pandemic now hopefully over and the end of mass school closures ESPO has been able to return to business development activity targeting growth in a range of areas. However, supply chain issues remain and ESPO will need to manage the resulting availability and inflationary implications.

ESPO undertook a procurement exercise for its external auditors in February 2022. The HoIAS was part of the evaluation panel.

The Corporate Asset Investment Fund (CAIF) Strategy guides the Council's investments in assets not directly used for the delivery of its services, but which contribute to the outcomes of the Council's Strategic Plan. The Strategy requires reporting to various member bodies. Reporting on the financial performance is included in the budget monitoring reports on a quarterly basis. The CAIF Annual Report for 2020/21 was received by the Scrutiny Commission in September 2021. The CAIF Strategy for 2022/2026 was approved by County Council in February 2022.

Leicestershire Traded Services (LTS) is the Council's trading arm which sits within the Corporate Resources Department. Its activities are overseen by an Officer Board. The quarterly financial and performance reports include the performance of the LTS as part of the Corporate Resources Department and these reports are considered by various member bodies. The Annual Report on the Commercial Strategy 2020/21 was received by the Cabinet in June 2021. It reported that the closure of schools during the pandemic significantly reduced the assumed income from Traded Services and required an adjustment to the MTFs, but also future plans for recovery and growth.

Trading conditions continue to be challenging, with inflationary pressures having a significant outlook on financial performance.

Collaborative

East Midlands Shared Service (EMSS) EMSS is constituted under Joint Committee arrangements to process payroll/HR and accounts payable and accounts receivable transactions for Leicestershire County Council and Nottingham City Council. The internal audit of EMSS is undertaken by Nottingham City Council.

The Head of Internal Audit (HoIA) at Nottingham City Council should provide his annual opinion by the end of June and it will be reported to a future meeting of the Corporate Governance Committee and incorporated into the final AGS.

Local Government Pension Scheme (LGPS) - Central Pool.

The LGPS Central pooled investment arrangements became operational on 1 April 2018. A range of collaborative governance vehicles has been established.

The Council is joint owner of LGPS Central Limited which manages the pooled assets of eight Midlands-based local government pension schemes, including Leicestershire. LGPS Central Limited is authorised and regulated by the Financial Conduct Authority as an asset manager and operator of alternative investment funds. It has combined assets of approximately £49bn which represents the assets of over 2,000 employing bodies which help to pay for the costs of pensions when they became payable.

The Company aims to use the combined buying power of its Partner Funds to reduce costs, improve investment returns and widen the range of available asset classes for investment for the benefit of local government pensioners, employees, and employers.

Member representatives of each of the funds sit on the LGPS Central Joint Committee which provides oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPS central business case and to deal with common investor issues. The joint committee provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The joint committee does not have delegated authority to make binding decisions on behalf of the participating councils. Virtual meetings of the Joint Committee were held on 18 June 2021 and 14 January 2022 broadcast live. They were attended by councillors and partner fund representatives as well as a number of LGPS Central employees. The Chair of the Local Pension Committee represented Leicestershire Pension Fund at the meetings.

Other governance forums included the virtual Annual General Meeting (28 September 2021) which was led by LGPS Central. Present for the Company were the directors and non-executive directors with partner funds represented by the nominated shareholder for the Local Authority. Once again, the Chair of the Local Pension Committee represented Leicestershire Pension Fund.

An update on Internal Audit arrangements was provided to the Council's Local Pension Board in May 2022. This included a summary of work completed during 2021/2022 and what is planned for 2022/2023. The internal audit functions of the eight LGPS owners have formed an Internal Audit Working Group (IAWG) and agreed a four-year internal audit plan of work. The County Council's Internal Audit & Assurance Service concluded a review (initially started in 2020/2021) of LGPS Central Investments with an overall 'substantial' opinion. The 2021/22 audits were assigned to Nottinghamshire County Council (Investments), and Worcestershire County Council (Governance).

Active Together (formerly the Leicestershire and Rutland Sports Partnership)

The Director of Public Health represents the Council and is vice-chair of the Active Together Board of non-executive directors. There are defined terms of reference which set out the governance arrangements and key tasks of the Board. Underneath the Board is a number of subgroups (drawn from the Board and co-opted others) to provide additional scrutiny of areas of the business.

One of those sub-groups in the 'business, oversight and audit' committee which oversees business planning, financial and risk reporting, and reports to the Board quarterly. The Head of Service in Public Health is a member of this committee.

Leicester and Leicestershire Enterprise Partnership (LLEP)

The LLEP is a private company limited by guarantee (Company No: 11932434). Mr P Bedford CC represents Leicestershire County Council on the LLEP Board of Directors.

Local Enterprise Partnerships (LEPs) are non-statutory bodies and as such require an Accountable Body to manage funding from Government. Leicester City Council is the Accountable Body to the LLEP and hence takes the ultimate legal and financial responsibility for the LLEP's activities.

The Accountable Body, through its Section 151 Officer, is responsible for ensuring that statutory requirements are met in resource allocation decisions and that the public interest is protected. It provides financial and legal support and takes the ultimate legal and financial responsibility for the LLEP's activities.

During 2021, in May the Ministry of Housing, Communities & Local Government (MHCLG) informed the LLEP that in 2020/21 it met the Government's expectations for governance, Strategic Impact and Delivery. In June the LLEP held its AGM and produced its Annual Report 2020/2021 including its response to the Covid-19 pandemic. In September it reviewed its Local Assurance Framework to ensure compliance with a refreshed National Assurance Framework.

At the end of March 2022 the Government issued guidance on integrating LEPs into local democratic institutions which it had introduced in its Levelling Up White Paper.

East Midlands Freeport

Freeports are a flagship Government programme that will play an important part in the UK's post-COVID economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment and prosperity to some of the most deprived communities, with targeted and effective support. The East Midlands Freeport (EMF) is the UK's only inland Freeport and features three main 'tax sites' straddling three East Midlands counties. The EMF brings together a mix of industries and collaborating partners, combining public and private sector know-how, oversight and expertise from key sectors including transport and education.

Work to develop a Business Case began in 2021 and tax site designation was eventually awarded by HM Treasury in March 2022. The Full Business Case was submitted to Government in mid-April and full designation is expected in the summer depending on legislative timetables. The Cabinet approved the County Council becoming a member of the Freeport Company, with the Leader as a nominated member to serve on the Board, and to continue the role of lead authority and accountable body for the newly incorporated Freeport Company.

Leicestershire Health and Wellbeing Board

- **Further information on Leicestershire Health and Wellbeing Board to follow in formal draft AGS**

Local (External) Audit

The Council's local (external) auditors, Grant Thornton LLP, presented the findings from their planned audit work to 'those charged with governance' at the Corporate Governance Committee on 28 January 2022.

The Auditor's Annual Report (AAR)

This was a new report that replaced the previous Annual Audit Letter and included a more detailed review of Value for Money (VfM) arrangements. This followed a revision to the Code of Audit Practice by the National Audit Office in 2020, which was effective for audits from the 2020/21 financial year. The report covered four areas. These were financial sustainability; governance; improving economy, efficiency, and effectiveness and the opinion on the financial statements. It also reported on the Council's response to the Covid-19 pandemic (see later).

Value for Money Arrangements

There were a small number of 'improvement' recommendations defined as 'if implemented should improve the arrangements in place at the Council but are not a result of identifying significant weaknesses in the Council's arrangements'. However, overall the auditor's report was very positive and concluded that the Council has a good track record of sound financial management, understands, and manages the financial risks, has a clear and documented governance framework and a well-developed performance management framework.

Opinion on the Financial Statements

The auditor gave an 'unqualified' opinion on the 2020/21 financial statements for the County Council and its Pension Fund on 13th December 2021. The draft accounts were prepared on time and included a "good set of supporting working papers."

Annual Audit Plan for the 2021/22 Accounts

Informing the Audit Risk Assessment and Audit Plan will be reported to Corporate Governance Committee at its meeting in May.

The Financial Management Code

The CIPFA Financial Management Code translates the principles of good financial management into seven Financial Management Standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

In January 2021 the Council completed a self-assessment of its compliance with the requirements of the FM code. The assessment showed that the County Council met the requirements of the Code with some small improvements required. A copy of the assessment was presented to the Corporate

Governance Committee in January 2021. Because of resourcing issues a planned internal audit of the self-assessment against the Code was deferred but is scheduled to be undertaken before the next revision by officers due in the Autumn of 2022.

7. THE COUNCIL'S CONTINUING RESPONSE TO (COVID-19)

Throughout 2021/2022, the Council continued to support its staff and the people and businesses of Leicestershire towards planning for recovery from the global pandemic declared in connection with the COVID-19 virus.

The Council worked closely with the Local Resilience Forum, Leicester City Council, Rutland Council, the district councils, the Police, the NHS, Public Health England and others to respond to and support the Government's roadmap for easing restrictions, the vaccination programme, testing, and the planning for recovery. Many changes had been made to the Council's services as part of responding to the Covid-19 pandemic and so work began to identify changes made that required some form of post event engagement or consultation.

In the spring plans were developed and put in place for the Council's own organisational recovery taking account of the Government's roadmap and the local situation regarding Covid19 cases. The Council's Crisis Management Group and Resilience Planning Group continued to meet regularly to actively manage the Council's response and recovery priorities. As a result of the pandemic, there had been huge and very quick shift in organisational culture, with many being required to work from home for the first time due to the national and local lockdowns imposed by the government. This led to a wholesale rethink of how departments and teams needed to operate moving forward, retaining a higher degree of flexibility, and more remote working than previously thought possible. The Workplace Programme (October 2019) was subsequently reshaped into the "Ways of Working Programme" taking account of the changes made and the experience gained during this period. However, given the scale of the Programme and its implications for how the Council would operate in the future, in September 2021 the Scrutiny Commissioners appointed an informal Scrutiny Task and Finish Group to provide some outside challenge to how it would be delivered to ensure the identified benefits of the Programme were realised and to consider the potential impacts, risks and barriers to its success. In the Task and Finish Group's report to the Scrutiny Commission on 9 March 2022, benefits to both the County Council and staff were identified in the Ways of Working Programme business case, including for the Council a potential reduction in absence. The Scrutiny Commission has referred recommended actions to the Cabinet Lead Member for Ways of Working and the Director of Corporate Resources for consideration.

By the early Summer, committees (and even full Council) were being held in person albeit with reduced numbers and more space afforded for those attending. Some meetings were also filmed for live or subsequent broadcast. By the Autumn the Council was reporting that risks had stabilised, if not actually reduced. The Council had not had supplier issues or large scale staff absences due to the success of the vaccination roll out. Nevertheless, the level of risk was continually monitored by the Resilience Planning Group (RPG) and Corporate Resources to assess risk to staff and customers and reported to the Council's Crisis Management Group (CMG), however it was effectively being managed as business as usual by Departments due to the longevity of the incident and the 'new normal' that Covid had become. The relaxation of restrictions and any possible impact on staff from new and hybrid ways of working was closely monitored for local effects as well as any changes to guidance from Central Government.

However, over the winter, new variants had elevated sickness and isolation absences, so services were providing regular updates on staffing levels and addressing through business continuity plans and reviewed regularly at RPG meetings. The Council provided regular service updates on its website and two waste sites were closed for a while due to staffing and driver shortages, some home to school and special educational needs transport services were unavailable and staff absence in the customer service centre had led to delays in answering queries. Through the LLR Strategic Coordinating Group the impact of new variants was being assessed and where appropriate multi-agency collaboration occurred to order to identify mitigating actions. The Council

had to plan for, manage and oversee implementing the regulations for mandatory vaccination for the wider frontline health and social care sector workers.

Within its Annual Auditor Report presented to Corporate Governance Committee on 28 January 2022, the Council's external auditor Grant Thornton reported that it had undertaken a review of the Council's response to the Covid-19 pandemic and how the Council's arrangements were adapted to respond to the new risks it was facing. The report covered the key actions taken by the Council and found no issues with the arrangements that were put into place. The auditor concluded that "in our view effective governance arrangements, an understanding of the financial risks, and clear adoption of a multi-agency approach allowed Leicestershire County Council to monitor the strategic and operational impact of Covid-19 on services, businesses and residents and these arrangements have enabled timely and responsive actions to be taken".

In early March the Council began to plan and prepare in case it was either selected to contribute to the public inquiry into the Covid-19 pandemic or whether it may wish to volunteer material.

By the end of March, both the Council's Crisis Management Group and the LLR Strategic Coordinating Group had been stood down following the ending of restrictions by the Government, but both could be stood back up at short notice if the RPG monitoring highlighted issues of substantial concern.

8. ACTION TAKEN ON GOVERNANCE ISSUES REPORTED IN THE 2020/21 AGS

The Council has defined a 'significant governance issue' as one that is intended to reflect something that has happened in the year, or which is currently being experienced.

Progress that has been made in dealing with the governance issues that were identified in the 2020/21 final AGS are detailed below:

Issue /Area for Improvement 2020/21	Lead & Date	Progress during 2021/22
<p><u>The Independent Inquiry into Child Sexual Abuse (IICSA)</u></p> <p>The Inquiry report was eventually released on 19 October 2021. It contained a section on the County Council's handling of historic allegations of child sexual abuse and drew some negative conclusions. This prompted short-lived national and local media attention.</p> <p>Whilst no recommendations were forthcoming from the Inquiry report, the County Council publicly acknowledged and apologised for its historic failings.</p>	<p>Chief Executive and the Corporate Management Team</p> <p>December 2020</p>	<p>No further action on the Inquiry was required.</p>
<p><u>Adult Social Care budget overspend</u></p> <p>A net overspend of £13.5m was forecast across adult social care. The Council published a media release to manage the publication of a budget update report, and it generated national and local coverage. An action plan to manage the overspend was developed which was to be overseen by departmental</p>	<p>Director of Adults & Communities</p>	<p>The overspend was due to increased demand relating to COVID. An action plan was implemented by departmental management to reduce costs and increased focus with the NHS on the hospital discharge process has reduced this to £3m. An ongoing focus will be required during 2022/23</p>

management		
<p><u>Capital programme reassessment</u></p> <p>There was an upwards reassessment of the cost of delivering major infrastructure capital schemes, in particular the Melton distributor road schemes. Estimates had been revised across both schemes of £133m, which was £10.6m above previous estimates.</p> <p>The overall funding shortfall of the council's capital programme was similarly reported in the media.</p>	Director of Corporate Resources	<p>The pressures on the capital programme continue to grow. Increased demand for forward funding linked to districts' local plan delivery coupled with skills shortage and high levels of inflation in the construction industry being key drivers.</p> <p>A series of mitigations has been identified, and shared at an all-member briefing on the 6 April, which will help to reduce the impact of these risks. Mitigations cover approach to project governance and management, consistency in scheme risk management, increased focus on whole life costs within financial monitoring, continued constructive dialogue with districts and central government and re-assessment of appropriate procurement routes for scheme delivery.</p>

9. SIGNIFICANT GOVERNANCE ISSUES ARISING DURING 2021/22

This Annual Governance Statement (AGS) identifies that the Council has effective arrangements in place, but that its officers recognise the need to continuously review, adapt and develop governance arrangements to meet the changing needs of the organisation. Whilst the Council has identified areas to be developed (Appendix), it is important to recognise that there are two significant matters set out in the table below.

Significant Governance Issue 2021/22	Lead Officer and Date
<p><u>SEN Budget Deficit</u></p> <p>The SEN budget remains under significant pressure with an in year deficit of £11m for 2021/22 and a cumulative deficit of £37m which is forecast to increase significantly in later years. This is a major pressure for the County Council, and whilst the majority of Local Authorities are also in deficit, the pressure has been growing at a faster rate in Leicestershire than in many other areas. The Authority has been invited to join a DfE initiative along with 56 other local authorities. The Delivering Better Value in SEND programme has been set up to support authorities such as Leicestershire to reduce deficits. The DfE also run a 'safety valve' programme for those authorities with higher deficits. The increase in demand is also resulting in higher expenditure on the SEND home to school transport budget. The Authority is also experiencing an increasing number of appeals and complaints. There is a work programme to address the budget position, and this is currently being refreshed including seeking external support.</p>	<p>Director of Children & Family Services</p> <p>Review position at time of final AGS (November 2022)</p>
<p><u>Firs Farm – environmental damage and rectification</u></p> <p>Firs Farm, Husbands Bosworth is owned by the Council as part of the County Farms Estate. During the winter of 2018 the Council's Trading Standards Service became aware of some irregularities in animal movement monitoring relating to the farm and a reported issue of illegal disposal of livestock carcasses. Subsequent inspections and monitoring suggested that there were other possible issues. In</p>	<p>Director of Corporate Resources</p> <p>Review position at time of final AGS (November 2022)</p>

December 2019 the Tenant and the Council entered into a legal contract with the aim of rectifying the illegal carcass disposal issue and several other matters within a strict timeframe.

A follow-up inspection in January 2020 confirmed that no action had been taken in line with the legal contract. The Tenant absconded and it became apparent that criminal activity relating to illegal waste disposal was occurring on the farm. Due to legal complications relating to the status of the Tenant, the Council was unable to regain possession of the farm until May 2020. During 2020 and 2021 the Council with the support of consultants has been engaged with the Environment Agency and Harborough District Council in determining the extent and types of waste buried on the farm.

A remediation strategy for the farm is now agreed with the Environment Agency. The Council will shortly be undertaking a tendering exercise for the removal and proper disposal of the waste on the farm and reinstatement of the farmland with a view to undertaking the work in summer 2022. The consultants original estimate of costs was £2.4m but this could increase and will not be fully known until tenders are received. The AGS will be amended accordingly. The Council's insurance does not cover the type of environmental or illegal waste disposal undertaken on the farm.

The Council has identified areas to be developed which are reported in Annex 1 (pages).

The Code of Practice on Local Authority Accounting in the UK 2021/22, requires that significant events or developments relating to the governance system that occurred between the Balance Sheet date, (31 March), and the date on which the Statement of Accounts will be signed by the responsible financial officer, are reported.

10. FUTURE CHALLENGES

Significant challenges faced by the Council such as continuing funding shortfalls, driving further Health and Social Care integration, social care reform etc are detailed within the Corporate Risk Register, which is regularly presented to the Corporate Management Team and Corporate Governance Committee. Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring, and maintaining the Council. Challenges continue to emerge, and key areas in particular are:

- Financial sustainability - There is a continued need for additional Local Government funding, that the spending review in 2021 did not adequately address. Service demand pressure continue to be felt in social care and SEND, which are only partially met by Council Tax increases and are driving the requirement for savings. The level of growth has taken a step higher following the coronavirus pandemic and the council is dependent upon continued additional Health funding to manage. All services are facing unprecedented inflationary pressure reflecting the wide economy. The council's finances are particularly sensitive to increases in the National Living Wage, which is expected to be driven significantly higher by greater wage growth in the wider economy. National reforms are being developed for SEN and social care; the information provided to date is raising concerns that there is a real risk of a material negative financial impact.

- **Further information on future challenges to follow in formal draft AGS, to include: -**

- Covid 19
- East Midlands Development Company and East Midlands Global Freeport
- Recruitment challenges and impact upon services
- Financial risks in delivering the infrastructure necessary to support growth
- Integrated Care Systems (ICS)
- Continuing support of the Homes for Ukraine Scheme
- Others to be determined

11. CERTIFICATION

The Council is satisfied that appropriate governance arrangements are in place and continue to be regarded as fit for purpose.

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

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

.....
John Sinnott
Chief Executive

.....
Nicholas Rushton
Leader of the Council

AREAS FOR FURTHER DEVELOPMENT IN 2022-23

This section will be completed in time for the formal draft AGS before end of June 2022

The Corporate and Departmental AGS self-assessments contained a set of conformance statements under each core principle and related sub-principles as outlined in the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016), which required a corresponding score of 1, 2 or 3 to be recorded, based on the criteria below:

Score	Definition	Description	Evidence (all inclusive)
1	<p>Good</p> 	<p>Conformance against most of the areas of the benchmark is good, although there may be minor developments required but with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor, and performance is generally on track.</p>	<p>Many elements of good practice to a high standard and high quality.</p> <p>Substantial assurance can be given that coverage of the sub-principle is operating satisfactorily and extends to most/all services areas within the department</p>
2	<p>Some development areas for improvement</p> 	<p>There are some developments required against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent, and performance is variable across the department.</p>	<p>Some elements of good practice to a high standard and high quality.</p> <p>Moderate assurance can be given that coverage of the sub-principle is working adequately in certain service areas, with omissions in others.</p> <p>Proposal/Plans are in place to address perceived shortfalls</p>
3	<p>Key development and many areas for improvement</p> 	<p>Conformance against many/all areas of the benchmark is poor and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track.</p>	<p>Few elements of good practice to a high standard and high quality.</p> <p>Coverage of this expectation is omitted amongst most areas.</p> <p>Proposal/Plans to address perceived shortfalls are in early stages of development</p>

The outcome of the review of the self-assessments is summarised in the table below.

Note: some actions are not included in the table as they are already reported through the Corporate Risk Register (CRR).

Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)

Core Principles of the Framework	Overall Assessment	Action to Develop Areas Further in 2022/23 (Ongoing and New)
<p>Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>		
<p>Principle B: Ensuring openness and comprehensive stakeholder engagement</p>		
<p>Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefit</p>		
<p>Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p>		
<p>Principle E. Developing the entity's capacity including the capability of its leadership and the individuals within it</p>		
<p>Principle F. Managing risks and performance through robust internal control and strong public financial management</p>		

Principle G.

Implementing good practices in transparency reporting and audit to deliver effective accountability

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