

## **GOVERNANCE & AUDIT COMMITTEE: 27 September 2022**

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### **DRAFT YEAR-END SELF-ASSESSMENT REPORT 2021/22 & UPDATE ON THE COUNCIL'S CONTROL ENVIRONMENT**

#### **REPORT OF THE CHIEF EXECUTIVE**

#### **AGENDA ITEM: 4**

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#### **Reason for this Report**

1. This report provides the Council's draft Self-Assessment Report and a Chief Executive view of the Council's Control environment.
2. The Governance and Audit Committee's Terms of Reference requires it to:
  - Review the Council's draft annual Self-Assessment Report, and make any appropriate recommendations for changes.
  - Consider the Council's framework of assurance and ensure that it adequately addresses the risk and priorities of the Council.
  - Consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
  - Monitor the effective development and operation of risk management in the Council.
  - Monitor progress in addressing risk-related issues reported to the committee.
  - Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
  - To review the governance and assurance arrangements for significant partnerships or collaborations.

#### **Background**

3. The Governance and Audit Committee requests an annual Chief Executive attendance, as part of its approach to receiving assurance from members of Senior Management Team. I last attended Audit Committee (subsequently renamed Governance and Audit Committee) on 23 March 2021, to present an update on the Council's control environment.
4. The scope of this annual report has been widened in recognition of the Committee's requirement to review the draft annual Self-Assessment Report and make any recommendations for changes. This new responsibility has been brought into force through the Local Government and Elections (Wales) Act 2021.

5. The Governance and Audit Committee received an overview of the non-statutory half-year self-assessment process and outcomes from the Head of Performance and Partnerships in its Committee meeting on 25 January 2022.

## Issues

6. The following report has been structured in order to provide an outline of the Council's performance and assurance frameworks, the arrangements in place to oversee and manage their effective application, and the reporting and improvement arrangements in place. This culminates in the draft year-end self-assessment report, contained within **Appendix A**.

## The Council's Planning and Performance Framework

7. The Planning and Performance Framework is central to the Council's corporate governance arrangements. The Framework sets out how the Council identifies and agrees what it wants to achieve, how it measures and reports progress and, where necessary, how it identifies and agrees actions to improve performance. There are, therefore, three distinct components to the Council's Planning and Performance Framework:
  - a) Identifying and agreeing what the Council wants to achieve: This is to ensure that there is a clear view of what success looks like across the organisation and with relevant partners, supported by realistic plans and budgets and with clear accountabilities, performance metrics and targets.
  - b) Measuring and reporting progress: This is to ensure that performance reporting is timely, integrated, and contains appropriate details drawn from a range of performance sources. It also allows performance reports to be developed through a process of self-assessment. The performance reports inform robust performance dialogues involving the Council's senior political and managerial leadership, and its wider political governance, focused on agreed priorities. The Council's approach further ensures that its performance monitoring is fact-based and data-driven with performance assessment subject to challenge and support.
  - c) Identifying and agreeing actions to improve performance: This is to ensure that performance discussions are improvement-focused, action-orientated, and that these actions are tracked as part of the Council's performance framework.
8. The Council's Planning and Performance Framework must respond to the requirements of the Well-being of Future Generations (Wales) Act 2015 and the more recent Local Government and Elections (Wales) Act 2021, which replaces the Improvement Duty set out in the Local Government (Wales) Measure 2009.
9. The Well-being of Future Generations Act requires the Council to set and publish Well-being Objectives, take all reasonable steps to meet those objectives and publish a statement about Well-being Objectives. These duties are fulfilled through the Council's Corporate Planning process. The Well-being of Future Generations Act also requires the Council to publish an annual report of progress, which is done through the Annual Well-being Report.
10. The Local Government and Elections (Wales) Act 2021 establishes a new legislative framework for local government elections, democracy, governance, and performance. The

Act requires each council in Wales to keep under review, through self-assessment, the extent to which it is meeting the 'performance requirements' – i.e., the extent to which:

- It is exercising its functions effectively.
- It is using its resources economically, efficiently, and effectively.
- Its governance is effective for securing the above.

11. The Act also places a duty to publish a report setting out the conclusions of their self-assessments once in respect of every financial year.

### Corporate Planning

12. The Council's Corporate Plan translates the administration's policy agenda into Well-being Objectives, with SMART 'steps' to outline what will be done and by when. Key Performance Indicators (KPIs) with corresponding targets are also agreed to help monitor progress and both political and managerial responsibility is also identified for each step and KPI. An enhanced process for Corporate Plan development was agreed by Cabinet in February 2022 and includes:

- A Mid-Year Self-Assessment which is considered by Cabinet in December, following engagement with the Policy Review and Performance (PRAP) Scrutiny Committee. This commences the process of refreshing the Corporate Plan.
- Thematic Challenge Sessions which are convened in respect of each Well-being Objective during January/February each year. The challenge sessions are chaired by the Leader and Cabinet Member for Finance, Modernisation and Performance and involve the lead Cabinet portfolio holders, relevant Directors along with myself as Chief Executive. The challenge sessions consider progress and challenges in relation to each of the Well-being Objectives within the Corporate Plan, and provide an opportunity to consider priorities, steps, Key Performance Indicators and targets for the year ahead.
- Engagement with the Performance Panel each January/February. The Performance Panel is convened by the Chair of the Policy Review and Performance Scrutiny Committee and allows the Chairperson of each Scrutiny Committee to:
  - Consider the Council's Mid-Year Self-Assessment
  - Make recommendations for improvement and strategic policy suggestions for consideration as part of Corporate Plan development
  - Support Corporate Plan development; with a focus on the priorities, steps, Key Performance Indicators and targets proposed for inclusion within the revised Corporate Plan.
- Engagement with all Scrutiny Committees including PRAP Scrutiny Committee as part of pre-decision scrutiny of the Corporate Plan in February.
- Formal consideration by Cabinet and Council in February/March. The Corporate Plan is part of the Council's Policy Framework, which is subject to approval by full Council, and this, as set out in the Constitution of the Council, ensures that the Corporate Plan is formally subject to consideration by all elected members.

## Senior Management Assurance

13. The senior management assurance process provides a strong internal challenge for us to continue to identify and target improvements in key areas of governance. Each director worked with their management teams to assess their mid-year directorate position, before submitting their returns for discussion in Senior Management Team (SMT). The SMT review is attended by the Corporate Director Resources and other SMT members representing Finance, Legal, HR and Performance and are able to provide independent insight when we consider the overall position.
14. Individually as Directors and collectively as a SMT changes were considered to deliver services as a result of the pandemic. Given the varying degrees of frequency and severity of Covid 19 cases, there was a continual need to ensure that the most appropriate and effective measures were in place when delivering services, responding to spikes in demand or looking to recover services particularly those in relation to income. This increasing demand on some Council services plus the need to change the service operating model combined with the need to close some services (and then restart) for part or the whole of the year required a multi layered approach to governance and assurance.
15. Committee in my last attendance were advised about the need to strengthen evaluation processes, and this has continued. Challenge sessions have been held with each Director in conjunction with senior management in Performance and Finance. These challenge sessions, held in November 2021 and May 2022 respectively, required each directorate to consider the merits of the self-assessment, to identify progress made against action plans, and to identify any areas of concern. I have continued to emphasise that areas of weakness need to be addressed in these challenging and changing times and there remains the importance of achieving consistent standards of governance and control across all directorates. I reinforced the need for these expectations to be monitored and managed through the 2021/22 senior management assurance statement process.
16. Alongside a range of areas where ongoing assurance is required, there is a current focus of our Senior Management Team on Council finances. The immediate economic context is challenging, and the Section 151 Officer will be taking Committee through the position in some detail as part of his update to the Committee later in the agenda. The Senior Management Team is focused on developing responses to a number of economic challenges attributed to factors including:
  - Inflation – which impacts the cost of goods works and services purchased by the Council, as well as pay awards to our staff
  - The energy crisis – with volatile prices and increased costs for the Council, across schools, street lighting and the wider estate.
  - Interest rate increases – which affect the cost of borrowing & capital programme affordability – both existing programme and new schemes.
  - Supply chain and labour market shortages – disruption to supply chains linked to geopolitical issues, and labour market shortages which may increase the cost of commissioning services in areas particularly affected
  - Economic growth – as weaker economic growth may curtail public sector funding
17. We have prepared a comprehensive report to Cabinet this September, following extensive reviews at SMT and driven through reviews, mitigations and actions at service levels as we focus on the delivery of resilient services within our challenging budget envelope. Our further areas of focus, outside of the economic context are included later in the report.

## **Independent Assurance**

18. We value the independent assurances that we received from both internal audit colleagues and from the range of providers of external assurance, principally Audit Wales, Estyn, Care Inspectorate Wales and HM Inspectorate of Probation. The information I receive provides me with a level of independent assurance that I use in conjunction with the SMAS returns and the Corporate Risk updates.
19. In many cases, assurance reviews confirm that systems of governance and internal control are robustly designed and operating effectively. Where improvements are required, it is important that we focus on the actions necessary for an effective control environment in relation to the area of review.
20. Audit and counter-fraud work has an important and prominent profile in the Council
  - The Council requires comprehensive audit assurance, and I meet with the Audit Manager on a regular basis where I receive a summary of the work being undertaken by audit and act as a point of escalation where needed.
  - The Governance and Audit Committee approves the plan of audits each year, following its development by the Audit Manager, in engagement with the Senior Management Team.
  - Directors meet with their audit relationship manager regularly to review and discuss audit reports and recommendations for required attention and action, and to consider areas of risk in the development of future audit plans. I encourage Directors to have a close relationship with the Internal Audit team, and in all areas, there is clear evidence of an effective two-way communication between them.
  - The Audit Manager attends meetings of the Senior Management Team at regular stages during the year to provide an overview of Internal Audit planning and assurance, key messages from work completed, and tracking information on the timely response to audit reports and recommendations.
  - We have mandatory fraud awareness training, and awareness and communication campaigns to reinforce our commitment to tackling fraud and safeguarding public resources.
21. The need for prompt action on recommendations is a high priority and an area I continue to reinforce to senior management. I recognise that the need to continue to provide assurance on key controls is of paramount importance at a time where the financial and demand pressures facing services is increasing. Alongside the Internal Audit and Scrutiny recommendation trackers, a tracker of recommendations from external review bodies is in place to cover wider assurance, inspection, and regulatory activities. This tracker is presented to Committee for review and comment twice a year. I welcome the insight, comment and recommendations from the Governance and Audit Committee in considering these reports.

## **Risk Management**

22. The Council's corporate plan involves the coordination of a wide range of diverse functions and programmes of work. Delivering our objectives requires frequent management of a wide range of risks at both operational and strategic levels. The risk management process has incorporated the challenges provided by the pandemic throughout the year. This progressive risk management approach focuses on identifying the key risks to our delivery, in order to develop and implement actions to achieve targeted risk levels.
23. Our approach to risk management ensures that Senior Managers are supported to identify and report risks at the right level in a timely manner. Officer risk champions and operational

managers support each director in formally identifying and reviewing their operational and strategic risks on a quarterly basis, and are on hand for ongoing advice, guidance and support.

24. We continue to report new and emerging risks through the process of risk escalation where directors communicate significant risks to SMT to raise collective awareness and support. Whilst directors are accountable for deciding which risks they escalate to SMT, as a minimum requirement all 'red' residual risks are escalated each quarter.
25. The corporate risk register is formally reviewed and updated on a quarterly basis to ensure that it is a current reflection of the primary risks to our objectives. Management of the Council's most critical risks is prioritised, with particular attention paid to red residual risks, and any increase in residual risk.
26. Target risk ratings have been developed for 'red' residual corporate risks, and challenging, but achievable, timescales for reducing these risks have been set. Of eight such risks at the latest reporting date, target residual risk levels are identified for six risks.
27. Whilst improvements have been made through ensuring target dates are set for each proposed action and a sharper, succinct focus on risk impacts and actions, I recognise there remain further improvements to be made such as ensuring all risk reviews remain timely and proportionate. There is particular focus on gaining further assurance on directorate risk registers that they remain comprehensive and proportionate in their coverage.
28. It is not currently possible to target overall risk reductions for the two remaining corporate risks. This is because of external factors, which have presented uncertainty and limited levels of actual control.

a. **City security** - *Major security-related incident in 'crowded places' as a result of international or domestic terrorism.*

The current focus is on making targeted incremental improvements through investment in the City infrastructure. The Council is actively engaged in partnership working to prevent, protect and prepare for a major security-related incident, with a new Protect and Prepare Group established, chaired by the Chief Executive and reporting in to the city's CONTEST Board, but this is against the backdrop of the UK threat level of 'substantial'.

b. **Welfare reform** - *That the Council cannot meet its statutory obligations with the increased demands and reduced budgets placed upon it by the Welfare Reform including: Universal Credit, further reduction in Benefit Cap and size restrictions for social tenants. The potential impact of these changes on rent arrears, homelessness and child poverty make these changes a significant risk. In 2022 the DWP will commence the rollout of migration for claimants from legacy benefits to Universal Credit.*

As Universal Credit has rolled out, there has been considerable impact on our citizens and the Council will continue to work with partners to mitigate the effects going forward. The roll out across Cardiff and the impact of the pandemic makes it not currently possible to identify and progress formal risk reduction targets.

## Self-Assessment Report (Well-being Report)

29. The Council's Annual Well-being Report, a requirement of the Well-being of Future Generations (Wales) Act 2015, acts as the Council's Statutory Annual Self-Assessment Report. The Council undertakes this process on a bi-annual basis, providing a strategic assessment of performance for each Well-being Objective, considering:

- What has gone well?
- What are the performance challenges and risks?
- What are the priorities for action?

The Self-Assessment draws on a range of internal and external performance intelligence sources:

- Internal sources of performance intelligence: Service performance, Assurance self-assessment, risk register and budget monitoring
- External sources of performance intelligence: Regulatory reports, Scrutiny Committee recommendations, Citizen surveys, Governance & Audit Committee recommendations

Each of the sources of evidence the Council draws on are, themselves, developed in accordance with a robust process and subject to their own governance and oversight arrangements. For example, the:

- Annual Budget Report published in July, and is considered by Cabinet, Policy Review and Performance (PRAP) Scrutiny Committee and Council.
- Annual Governance Statement is published in July, and is considered by Cabinet, Governance & Audit Committee and Council.
- Annual Risk Report published in July and is considered by Cabinet and the Governance & Audit Committee.
- Director of Social Services Report published in July, and is considered by Cabinet, Children and Young People Scrutiny Committee, Community and Adult Services Scrutiny Committee and Council.
- Annual Compliments and Complaints Report published in June, and is considered by Cabinet, Governance & Audit Committee and Council.
- Annual Report of the Cardiff Public Services Board published in June and is considered by PRAP Scrutiny Committee.
- Scrutiny Annual Report published July and considered by all Scrutiny Committees and Council.

The Annual Well-being Report is developed through a process of self-assessment involving the political and managerial leadership of the Council, with enhanced roles for both Scrutiny and the Governance & Audit Committee. This includes:

- Directorate self-evaluation of service performance, governance & financial challenges and priorities;
- Performance and budget challenge sessions which I and the Section 151 Officer convene with each Director to consider the findings of the directorate self-assessment;

- A progress and performance session with Cabinet and the Council's Senior Management Team where I provide an assessment of organizational performance;
- Engagement with the Performance Panel, convened by the Chair of the PRAP Scrutiny Committee, and involving the Chairs of each of the Council's Scrutiny Committees;
- Consideration by the PRAP Scrutiny Committee.
- Consideration by the Governance & Audit Committee.
- Consideration of the End-of-Year Assessment (the Annual Well-being Report) by Council.

Taken together, this allows for a balanced assessment of performance and agreement on corrective action.

### **Areas for focus**

30. The challenges which will dominate the landscape this autumn were emerging in the spring, and are included in the report, including:

- The economic pressures as referred to within paragraph 16 and 17.
- Rising, and increasingly complex, demand in children's services, particularly our ability to find placements for children.
- System pressures in adults services that will need us to continue our close partnership working with the UHB and the social care sector.
- The arrival of a significant number of Ukrainian refugees into Cardiff, who need to be welcome, safeguarded, housed and supported to build a new life here.

31. Through the Council's established arrangements to identify and manage service demands, risks, governance and assurance, our Senior Management Team will continue to lead our robust response to Council challenges, priorities and needs.

32. We have a strong Senior Management Team, supported by professional managers and teams, with effective systems for oversight and assurance, these are essential for us to deliver professionally managed public services effectively.

### **Legal Implications**

33. As set out in the body of the report, the new performance and governance regime established by the Local Government and Elections (Wales) Act 2021 requires the Council to make and publish a self-assessment report in respect of every financial year, and the report should be made as soon as reasonably practicable after the financial year to which it relates. The self-assessment report must set out its conclusions as to the extent to which it met the performance requirements during that financial year (addressing the matters set out in paragraph 10 of this report). A draft of the self-assessment report must be made available to the Governance and Audit Committee.

34. The Governance and Audit Committee must review the draft report and may make recommendations for changes to the conclusions in the draft report. If the Council does

not make a change recommended by the Governance and Audit Committee, the Council must include in the report the reasons why it did not make the change.

35. The self-assessment report may be integrated with the annual well-being report required under the Well-Being of Future Generations (Wales) Act 2015. However, the Council must be satisfied that all its statutory duties have been fully met.
36. In considering its functions under Part 6 of the Local Government and Elections (Wales) Act 2021, regard must be had to the statutory guidance issued by the Welsh Ministers: [Statutory guidance \(gov.wales\)](#)

## **Financial Implications**

37. There are no direct financial implications arising from this report. The areas covered in this report are the key building blocks in ensuring that the potential challenges to the Council delivering services are anticipated and managed effectively to provide both service and financial resilience.

## **RECOMMENDATIONS**

38. That the Committee:
  - Reviews the Council's draft annual Self-Assessment Report, and makes any appropriate recommendations for changes.
  - Reviews and considers the wider report content represented by the control environment update.

## **Paul Orders Chief Executive**

The following appendix is attached:

- Draft Year End Wellbeing (Self-Assessment) Report 2021/22

## **Background Papers**

- Cabinet, 28 September 2022 – Corporate Risk Management - Quarter 4 2021/22 & Budget Monitoring - Month 4 [Browse meetings - Cabinet : Cardiff Council \(moderngov.co.uk\)](#)
- Governance and Audit Committee, 19 July 2022 – Draft Annual Governance Statement 2021/22 [Agenda item - Draft Annual Governance Statement 2021/22 : Cardiff Council \(moderngov.co.uk\)](#)