

Report to	-	Audit and Standards Committee
Date	-	26 June 2017
Report of the	-	Executive Director of Resources
Subject	-	Annual Governance Statement

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**Recommendation:** It be **RESOLVED:** That:

- 1) the Annual Governance Statement be approved; and
  - 2) the Statement be signed by the Leader of the Council and the Head of Paid Service.
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**Service Manager: Robin Vennard**

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## **Introduction**

1. Governance comprises the systems and processes, and cultures and values by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities. In essence, good governance ensures that an organisation is doing the right things, in the right way, for the right people, in a timely, open and accountable manner. There is a strong correlation between effective governance and effective service delivery. Therefore to deliver the Council's ambition and support the drive for continuous improvement, strong governance arrangements need to be in place.
2. The Annual Governance Statement (AGS) at Appendix A comprises an assessment of governance arrangements and internal controls across the whole organisation against the Council's Code of Corporate Governance and whether these are supported by robust assurance processes. This review includes:
  - the robustness of the Council's risk management, performance management, financial management, legal and regulatory, IT and human resources processes and having the evidence to support that these are in place;
  - the governance arrangements in place for the management of partnerships;
  - the work and effectiveness of the internal audit function; and
  - assurances from those managing the business (i.e. our Service Managers) that the processes in their area of business are robust and complied with.
3. Elsewhere on this agenda is a review of the current local code of corporate governance following publication of revised guidance issued jointly by the Chartered Institute of Public Finance & Accountancy and the Society of Local

Authority Chief Executives. The actions arising from the review have been incorporated into this statement.

4. The Accounts and Audit Regulations require that the Council reviews, at least annually, its governance arrangements and, following this, agrees an Annual Governance Statement for publication. It is still a requirement for the Council to demonstrate its awareness of where weaknesses exist within its governance arrangements and to develop and implement appropriate improvement plans. The annual review has assessed the Council against the new draft Code of Corporate Governance. In undertaking the annual review the following sources of assurance were considered:
  - Service Mangers' self-assessments of their service areas
  - Internal Audit reports for 2016/17
  - Annual Review of Internal Audit, which is elsewhere on this agenda;
  - External Audit "*Annual Audit Letter*" – December 2016; and
  - External Audit "*Annual Audit Plan*" – March 2017.

### **Review of Governance Issues**

5. The review work looked at issues arising from the various sources of assurance outlined above. The outcome of the review is set out in the Statement under the heading of Significant Governance Issues.

### **Conclusion**

6. This report shows the robust approach the Council takes to ensuring good governance. The issues highlighted through inspection, both internal and external, provide assurance that the controls and procedures in place provide Members with a high degree of assurance. The report highlights the areas where improvement is required and highlights the risks to the Council and its partners resulting from the poor economic climate and the associated impact on funding in the public sector.

Malcolm Johnston  
Executive Director of Resources

### **Risk Assessment Statement**

The adoption of the Annual Governance Statement provides a sound structure in which to consider the Council's governance arrangements. This ensures that major control issues are identified and action taken to address those issues.

## **ROTHER DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT**

### **Scope of Responsibility**

Rother District Council (RDC) is responsible for ensuring that 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. RDC 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, RDC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

RDC has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The local code has been amended to reflect updated framework and guidance issued in 2016. A copy of the Code is on our website or can be obtained from the Service Manager – Corporate and Human Resources, Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX or telephone 01424 787862. This statement explains how RDC has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

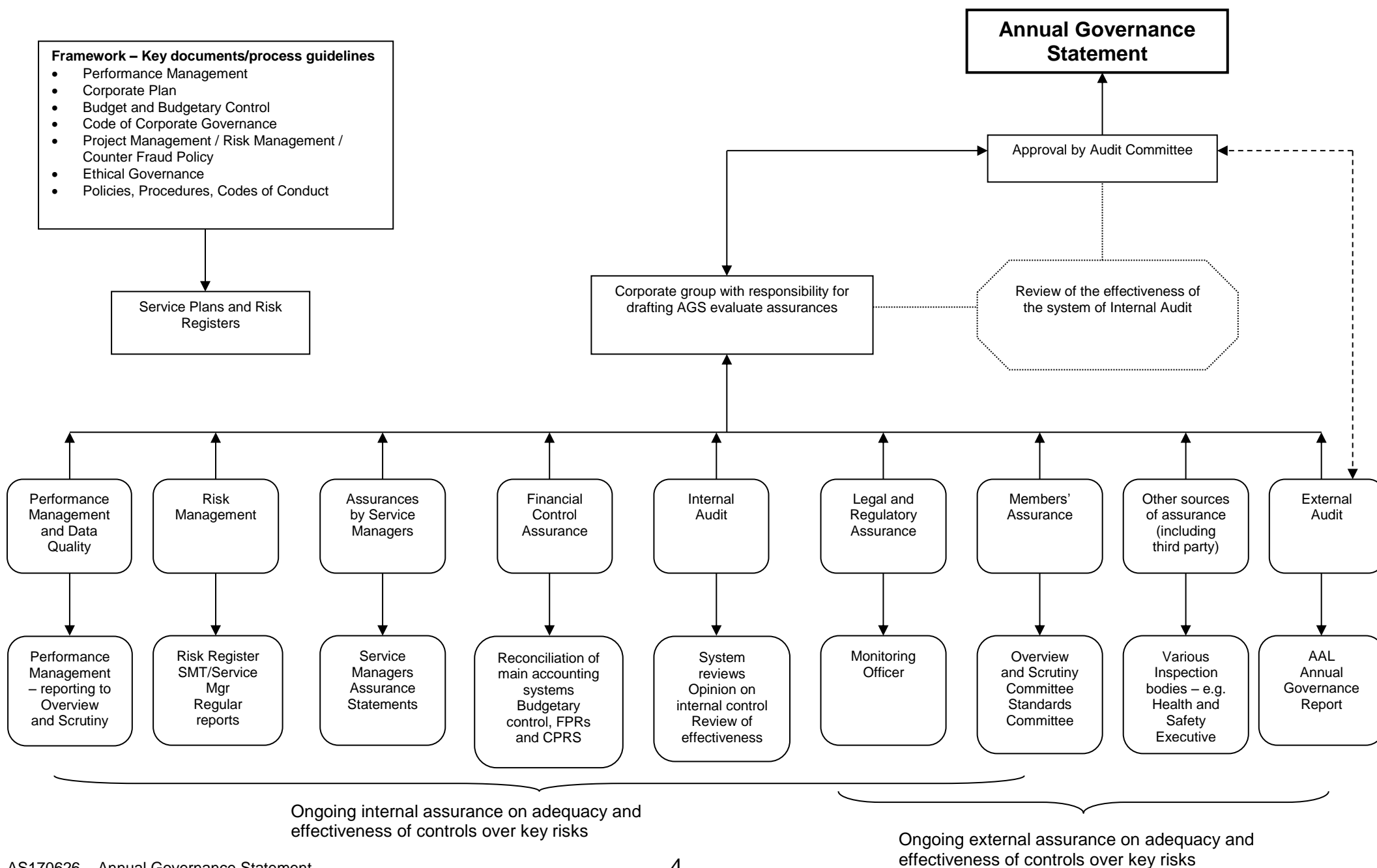
### **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled and its activities 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 that framework and is designated 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 the achievement of Rother's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Rother for the year ended 31 March 2017 and up to the date of approval of the statement of accounts.

## ANNUAL GOVERNANCE FRAMEWORK TO 31 MARCH 2017



## **Review of Effectiveness**

RDC has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including 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 the governance environment, the Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The way the Council complied with the Code of Corporate Governance is explained below:

### **PRINCIPLE A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

#### **Legal and Regulatory Assurance**

The role of Solicitor to the Council entails oversight of all the Council's legal dealings, including as necessary the sealing or signing of formal legal documents. The role of Monitoring Officer entails oversight of the Council's ethical framework, oversight of the Council's Constitution including the proper allocation of functions between the executive, regulatory and scrutiny limbs of the democratic machinery, and the statutory duty to report direct to full Council with respect to any breach of law. Key to the performance of the Monitoring Officer is the vetting of the agenda, reports and minutes of all meetings.

The Service Manager – Corporate and Human Resources became the Council's Monitoring Officer. The Council's Legal Services are provided by Wealden District Council and their lead officer is the appointed Solicitor to the Council.

#### **Members' Assurance – Audit Committee**

During 2016/17, the Audit Committee received and scrutinised quarterly reports from the Audit Manager on the reviews carried out and progress against the plan and the year-end report includes a formal opinion of the adequacy, reliability and effectiveness of the Council's Internal Control systems.

#### **Members' Assurance – Standards Committee**

The Standards Committee comprises three District Councillors (one Conservative, one Liberal Democrat and one Association of Independents), two Independent Person(s) and two Parish & Town Councillor representatives, and meets twice a year. Under the Localism Act 2011, the Standards regime changed and Councils were given the responsibility of setting their own Codes of Conduct and procedures for dealing with complaints against Members. The Monitoring Officer is now able to assess all complaints after consultation with one of the Independent Persons and determine what actions, if necessary, should be taken. All valid complaints are reported to the Standards Committee for information bi-annually. Sanctions for dealing with Councillors who may have breached the Code of Conduct are significantly reduced under the new regime.

In addition to its statutory responsibilities, the Council has also vested in the Committee the overview of complaints handling and Local Ombudsman investigations. In this regard, the Committee receives a bi-annual report and an annual report on the Council's whole year performance.

From the 15 May 2017, the responsibilities of the Standards Committee have been amalgamated into the new Audit and Standards Committee.

### Anti-Fraud and Corruption Framework

All officers and Members are signed up to the Council's Anti-Fraud and Corruption Framework. The Framework is made up five separate but related documents, namely:

- ✓ Anti-Fraud and Corruption Strategy
- ✓ Fraud Response Plan
- ✓ Anti-Bribery Policy
- ✓ Anti-Money Laundering Policy
- ✓ Whistleblowing Policy

The Whistleblowing policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour and ensuring that any concerns raised are properly investigated.

### **PRINCIPLE B - Ensuring openness and comprehensive stakeholder engagement**

Full Council, Cabinet, Regulatory and Scrutiny meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.

The Council's consultation charter sets out how it engages with stakeholders and partners. Rother residents who want to have their say and hear regularly about new opportunities can join Rother Citizens Panel. Currently there are around 1,000 residents and other interested parties involved. The Council website has a section called "Ask the Leader!" where the Leader of the Council will answer question posted online. The Council has a public question time scheme which allows the public to put questions to the appropriate member of Cabinet at full Council meetings. Any organisation or anyone who works or lives in the Rother District can submit one written question to full Council attended by all the elected Councillors.

### **PRINCIPLES C AND D - Defining, optimising and achieving outcomes**

The Rother Corporate Plan 2014 - 2021 sets out our vision for the district and priority areas for improvement in quality of life locally. The Corporate Plan is delivered through a programme of projects and complemented by a resetting strategy that seeks to adapt our services to on-going cuts in central grant support. The Corporate Plan is regularly monitored by Members.

RDC's performance management framework is set out in its Annual Report, published on 30 June each year. Objectives and targets are set against the Council's corporate aims:

- An Efficient, Flexible and Effective Council
- Sustainable Economic Prosperity
- Stronger, Safer Communities
- A Quality Physical Environment

Performance is monitored against a key performance indicator (KPI) set recommended by Scrutiny Members in January of each year and subsequently approved by Full Council. Performance against the KPI basket is reported to Members quarterly and includes other areas if performance is giving rise for concern. Details of any remedial action to be undertaken, is included in these reports. Benchmarking against other similar authorities and national quartiles where available is a key aspect of performance reporting. Strategic Management Team and the Overview and Scrutiny Committee (OSC) routinely carry out high-level oversight of performance. The Committee recommends actions and resource reallocation for action by Cabinet where appropriate.

The Council's performance reporting system, Covalent, is used to capture and analyse data for the Council. The use of the system has been extended to record data to enable the effective monitoring of the delivery of projects and business plans associated with the Corporate Plan.

The Council shares the system with Wealden District Council and this has brought significant financial savings to both authorities. This management information system incorporates robust data quality features. A regular User Group brings together users from across the authority to share experience and ideas. Data quality is also managed through service representatives across the organisation. Quality control processes include Service Manager sign off, risk assessment and internal auditing of measures and their data.

## **PRINCIPLE E - Developing capacity and capability**

A key element of the Council's service planning is to maximise the investment in staff through staff training to ensure we have the necessary skills for the future. All employees training and development needs are considered as part of their annual appraisal. The Council is the lead authority for the Sussex Training Consortium which provides access to cost effective training for all Councils across East and West Sussex. The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way.

## **PRINCIPLE F - Managing risks and performance**

### Risk Management

The Council has an approved Risk Management Policy and Strategic Integrated Framework. This document shows the role both Members and officers have in the identification and minimisation of risk. Progress has been made to further embed risk management within the organisation and is now driven by risk and corporate governance forming an integral part of meetings of the Strategic Management Team (SMT). Desk top exercises have been held on a regular basis to test identified risks against our Business Continuity planning. Risk Management is a feature of all new projects and is an integral part to the service planning process. Day to day management and monitoring processes and procedures are in place but work continues to improve the awareness of all staff. The corporate risk register forms an integral part of the Council's risk management process and is now available throughout the Council's services.

## Financial Control Assurance

A regular process of reconciling the main accounting systems is in place. Budget monitoring is produced monthly for all budget managers and regular reports have been submitted to Cabinet. The quality of reporting is continually under review by Finance and budget managers and improvements have been made this last year.

## Internal Audit

Each year an Internal Audit plan of work is agreed by the Strategic Management Team, the Section 151 Officer and the Audit Committee. The majority (95%) of the 2016/17 Audit Plan was completed in the year. All core financial audits were completed together with the audits that had been categorised as high/medium risk within the Plan.

The Audit Manager reports quarterly to the Audit Committee on the audit reviews that have been undertaken, highlighting any significant recommendations that have been made. The Audit Manager reports monthly to the Executive Director of Resources, and quarterly to the Audit Committee on the audit reviews that have been undertaken, highlighting any significant recommendations that have been made. In addition, the Strategic Management Team and the Section 151 Officer review the effectiveness of Internal Audit annually.

## External Audit

External audit provide the Council with an Annual Audit Letter and an Annual Governance report, which reports on the Council's financial performance, value for money and a review of the effectiveness of the governance arrangements.

## **PRINCIPLE G - Implementing good practices in transparency, reporting, and accountability**

All council decisions are published online together with supporting information to outline why that decision was chosen above other options. The Council has developed its both its website and the format of Council reports to improve transparency and accessibility.

The Council reports performance against targets and financial targets on a regular basis. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services. All high risk audit recommendations are reported to the Audit Committee, to ensure that officers undertake any follow up actions as appropriate.

## **Significant Governance Issues**

In terms of internal control, there have been areas where weaknesses which have been identified through the review of compliance to the local code of corporate governance, Managers' Assurance Statements, Internal Audit and the work of the Standards Committee and these are commented on below. In addition, there are areas where due to external factors these have potential to adversely impact on the Council.



## Governance issues arising from the review of the Local Code of Corporate Governance

The following summarises the areas of activity that will be reviewed during 2017/18 following the review:

- To produce a Counter Fraud Strategy
- Response to the increase requirements under the new General Data Protection Regulations (GDPR)
- Provision of ethical training
- Revised Communication Strategy
- Revised Procurement Strategy
- Update to the Council Workforce Plan

### Internal Audit Reviews Showing Unacceptable Internal Control Environment

Internal audit reviews identified a few service areas where the internal control environment was not satisfactory. Detailed below are those areas where action remains outstanding:

- (i) Asset Management – Internal Audit highlighted inconsistencies in the records maintained on the land and property assets of the Council and the need for a single computerised asset management system. Work commenced entering records on to a new central asset management system (ePIMS) in November 2014 but this task has proven to be a much bigger than was originally envisaged, and it is not now expected to be completed until December 2017.
- (ii) Data Protection – An Internal Audit report issued in July 2013 found a problem with the way personal data is shared. Some progress has been made to address this issue but it is yet to be fully resolved.

The further area where only limited assurance could be given (Community Infrastructure Levy (CIL) and Section 106 Agreements) was also highlighted as a result of Internal Audit work in 2016/17 but the main issue that led to this assessment (i.e. concerns about the arrangements for collecting and accounting for CIL income) has since been resolved. A further review of the CIL system is planned for later this year.

The Audit Manager is working with Service Managers and the Executive Directors to actively try to reduce the number of long outstanding high risk recommendations in some of the areas mentioned above.

### Other Issues that may impact on the Council

#### *Further Reductions in Government Funding*

The reduction in central Government funding continued into 2016/17 with a further reduction of over £0.8m. Total formula grant funding from Government is expected to end by 2019/20. The expectation therefore is that not all current services can continue to be delivered or delivered at existing levels of performance. The Council has put in place a programme of work to meet the decline in government funding and aims to deliver cost reductions and increase revenue of £1.8m by 2019/20. Failure to deliver the desired outcomes from the programme will expose the Council to the risk

of challenge / failure to meet statutory requirements and the risk of service failure through lack of resources.

#### *Business Rate Retention Scheme*

The outcome of the government review of the scheme and the fairer funding review is unknown at present and therefore also presents a risk to the future financial stability of the Council

#### *New Homes Bonus Grant and Reserves*

The Council has worked hard to reduce reliance on reserves in its revenue budget. However, this has been achieved to some extent, through the use of New Homes Bonus Grant (NHB) of £1m to support revenue spending. NHB funding is uncertain in the medium term requiring the Council to have in place plans to deal with its loss should this occur. By the end of 2016/17 revenue reserves and balances are estimated to be approximately £14.9m of which £9.4m are earmarked for specific purposes and the remaining £5.5m earmarked to support the medium term financial strategy. Failure to identify savings or additional income to meet the loss of Government funding could result in a return to the withdrawal of funds from reserves in supporting core services and a risk that the Council will have insufficient cash reserves to manage adverse variations in spending.

#### *Capital Programme*

At a time of major public funding cuts, the level of investment required under the Council's Corporate Plan is likely to be of a scale beyond the financial ability of the Council based on traditional funding models. The Council with its Rother 2020 programme will work in partnership with the public, voluntary and private sectors to pool resources but this brings with it a higher risk of failure than projects solely delivered by the Council. To mitigate the risk, the Council will need to demonstrate strong leadership skills to align aspirations and funding to deliver the investment in the area.

#### *Joint Working*

It is expected that the Council will continue with its programme of delivering services jointly with other bodies where it helps to maintain or improve services at a reduced cost. Joint working does however reduce the Council's flexibility and ability to redirect its resources when committed to delivery of a service for another Council. The latest service to be delivered is Building Control which is a partnership of four district and borough councils led by Wealden District Council. The new joint service commenced on the 1 April 2017.

*Agresso Financial System Partnership* - The current Agresso Financial system partnership, led by Lewes District Council will end in April 2018. An alternative partnership has been established with Hastings Borough Council and the procurement and implementation of the new software is scheduled to be complete by this date. Clearly there is a risk to the Council of not meeting the timescales or delivering a flawed solution.

#### *Joint Waste Contract*

This will be an area of significant change over the next couple of years following a mutually agreed decision to terminate the existing contract with effect from 28 June 2019. The main issues facing the Council over the coming year concern the arrangements for managing the performance of the outgoing contractor, while simultaneously undertaking a major retendering exercise.

With the continued poor market for recycle materials it is expected that costs for the collection of waste will rise considerably over the current costs. The Council's

financial plans make provision for this but at present the scale in the change in cost is unknown. It may be possible to mitigate some of the additional cost through changes in the specification.

### *ICT Code of Compliance*

The Council achieved compliance with the Public Services Network's requirements in May 2015. Funding of £475,000 was made available to ensure the Council updated its current ICT provision and a number of software and security measures to ensure continued compliance with Government requirements. This followed identification of potential risks to compliance that would impact on key services such as Housing Benefits which could not operate without access to the Department of Work and Pensions. The work was largely completed during 2015/16 and 2016/17 but is expected to be finished in 2017/18.

## **Emerging Areas of Risk:**

### *General Data Protection Regulation (GDPR)*

The GDPR, will replace the Data Protection Act 1998 with effect from 25 May 2018, and will introduce new obligations (including a requirement to appoint a qualified Data Protection Officer), enhanced data subject rights and tougher financial penalties. There is a risk that the Council will not have the necessary expertise/procedures in place to cope with the new legal requirements.

### *Local Government Recruitment*

The recruitment of professional level Local Government posts is proving to be problematic. There are a range of factors influencing this, but seasoned professionals and specialists are becoming a real issue for Local Government and in particular semi-rural Council's such as Rother. Our ability to deliver services and projects can be severely compromised by the inability to recruit.

### *New Computer Systems*

Several new computer projects are currently ongoing including the Financial Systems upgrade/replacement, Document Image Processing and Workflow software, and a new Customer Relationship Management system. All face the same risks inherent in any major project but this is compounded by the low level of dedicated staff resources (with many of the officers involved also having to meet the responsibilities of their day jobs) and challenging implementation timescales.

### *Cash Collection Contract*

The main issue regarding the administration of this jointly procured contract (i.e. the Contractor's inability to bill the Council correctly for the collections it makes) has continued despite a number of meetings with the Contractor and assurances that things will improve. If the Contractor's performance does not improve over the coming year then the Council may be forced to consider its options.

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

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Cllr Carl Maynard  
Leader of the Council  
On behalf of Rother District Council

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Head of Paid Service  
On behalf of Rother District Council