

Report to	-	Audit and Standards Committee
Date	-	26 March 2018
Report of the	-	Executive Director of Resources
Subject	-	Annual Governance Statement 2017-18

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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 Heads 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. 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 Managers' self-assessments of their service areas;
- Internal Audit reports for 2017/18;
- Annual Review of Internal Audit, which is elsewhere on this agenda;
- External Audit "*Annual Audit Letter*" – December 2017; and
- Any other external review of Council services.

### **Review of Governance Issues**

4. 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**

5. 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 the RDC 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.

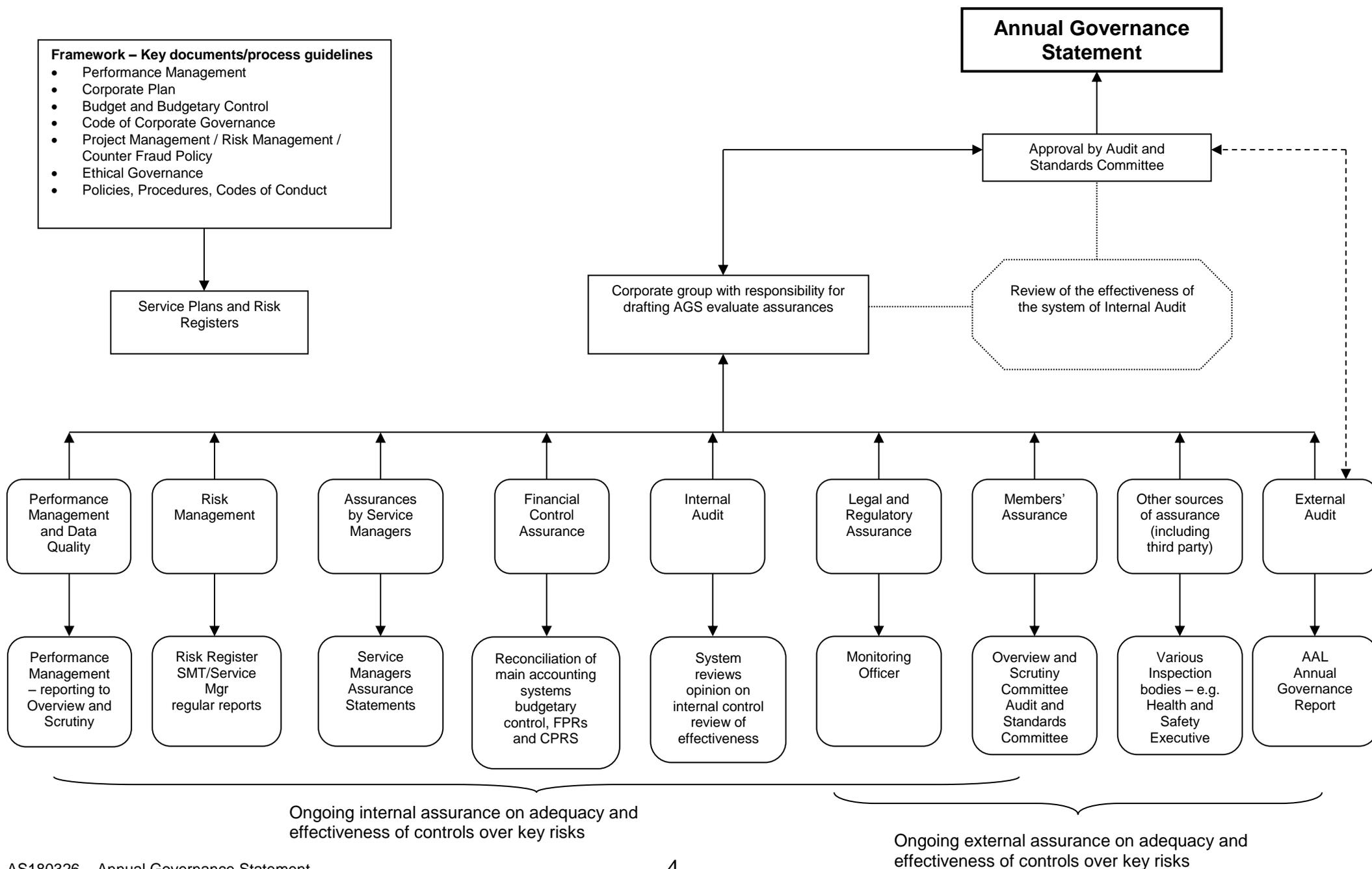
### **The Purpose of the Governance Framework**

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 2018 and up to the date of approval of the statement of accounts.

# ANNUAL GOVERNANCE FRAMEWORK TO 31 MARCH 2018



## **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 directors 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 was the Council's Monitoring Officer in 2017/18. For 2018/19 this role will be undertaken by the current Democratic Services Manager. 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 and Standards Committee**

During 2017/18, the Audit and Standards 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.

In carrying out its responsibilities for Standards matters, the Committee also includes two Independent Person(s) and two Parish & Town Councillor representatives, who usually attend meetings of the Audit and Standards Committee twice a year, when standards related matters are considered. 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 Audit and 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.

## 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.

Rother'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 Overview and Scrutiny (OSC) 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 are 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 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, Pentana, 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 Council 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 are 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 SMT, the Section 151 Officer and the Audit and Standards Committee. The majority of the 2017/18 Audit Plan is expected to be completed by the financial year end. At the time of writing this report 94% had been completed. 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 and Standards 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 and Standards Committee on the audit reviews that have been undertaken, highlighting any significant recommendations that have been made. In addition, the SMT 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 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 and Standards 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 Audit and 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 progress against the areas for review identified in the 2016/17 statement:

- Counter Fraud Strategy – a draft Counter Fraud Strategy has been produced but is yet to be finalised. The launch of this strategy has been postponed pending the outcome of a proposal by the East Sussex Counter Fraud Hub to fund a fixed-term Investigator post, whose duties may include work in the

Hastings and Rother area. If approved, this should boost counter fraud activity in Rother and this will need to be reflected in the strategy.

- Requirements under the new General Data Protection Regulations (GDPR) – As highlighted in 2016/17, the GDPR will replace the Data Protection Act 1998 with effect from 25 May 2018. There continues to be a risk that the Council will not have the necessary procedures in place to meet the new legal requirements. A working group has been established and training given to officers to address this issue and the Council's approach is being coordinated by a new, dedicated Data Protection Officer who we share with Wealden District Council.
- Provision of ethical training – training concerning the Members' code of conduct was undertaken in February 2017.
- Revised Communication Strategy – the Strategic Management Team will be considering communications in the light of the new senior staffing structure and increased focus on delivery of Rother 2020 projects in 2018.
- Revised Procurement Strategy – the Council is working with the East Sussex Procurement Hub to update Procurement Strategies for all member Councils. This work is now long outstanding and needs to be resolved in 2018.
- Update to the Council Workforce Plan – the Workforce Plan is being revisited in light of recommendations arising from a recent Peer Review. The majority of Phase 1 of this work is completed and Phase 2 underway.

#### Internal Audit Reviews Showing Unacceptable Internal Control Environment

Internal audit reviews identified one service area where the internal control environment was not satisfactory and action needed:

*Housing Needs Grants and Loans* – only minimal assurance was given to this area of Council activity because the system for providing financial assistance to residents at risk of homelessness was found to be poorly controlled and in need of urgent improvement. A follow-up audit review of this area will take place in 2018/19.

Other issues highlighted by Internal Audit that may impact on the Council include:

*Joint Waste Contract* – this continues to be an area of significant change following a mutually agreed decision to terminate the existing contract with effect from 28 June 2019. The Council is currently managing the performance of the outgoing contractor while simultaneously concluding a major retendering exercise for the new contract. A Deputy Project Manager has been appointed to assist with the latter.

*New Computer Systems* – the Council has a number of projects for major new computer systems running concurrently. Some of these projects are now nearing completion, as the systems concerned have recently gone live, but others (notably the financial system upgrade/ replacement, ERP) are still ongoing and will continue to require significant effort to ensure their successful conclusion. A lack of dedicated staff resources, combined with challenging implementation timescales, mean that there is a real risk that not all of these projects will be delivered on time and within budget.

## Other Issues that may impact on the Council

### *Further Reductions in Government Funding*

The reduction in central Government funding continued into 2017/18 with a further reduction of over £0.6m. 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 (Rother 2020) to meet the decline in government funding and aims to deliver cost reductions and increase revenue of £1.8m by 2019/20. A Local Government Association Peer review of the Council took place in 2017 and focused on the ability of the Council to deliver its Rother 2020 programme. The key outcomes from the review were:

- *The Council has a sound financial position, stable services and has identified the need to make significant changes in the way it works*
- *Members and staff are committed to the district.*
- *Do not let caution temper ambition.*
- *Focus on what will deliver the greatest impact.*
- *Harness the talent in the organisation.*
- *Remember your residents in everything you do.*

The review confirmed that the Rother 2020 programme was deliverable but highlighted the scale of the challenge and the changes required to the Council. 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.

It is also becoming apparent that the actions of other public bodies as a result in the decline in funding will start to impact on the Council. Reductions in services, particularly those delivered by the County Council, could have knock on impacts as the public seek the support of the district council instead.

### *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.

### *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.

### *Local Government Recruitment*

The recruitment of professional level Local Government posts continues 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 Councils such as Rother. Our ability to deliver services and projects can be severely compromised by the inability to recruit.

### **Emerging Areas of Risk:**

#### *Property Investment*

The Council plans to acquire property within the district with a view to stimulating economic activity and generating rental income to support the revenue budget. Most of this property investment will be funded by borrowing and this is expected to peak at approximately £35 million by 2021. Whilst the potential gains from such an approach can be very attractive, there can also be significant financial risks if the Council does not invest wisely or fails to secure the expected rental income. The Council will therefore need to carefully consider all property investment opportunities and seek professional advice before making acquisitions. This is why the Council has put in place a Property Investment Panel that comprises Members and Officers who will be supported by specialist valuation and financial advisors.

#### *Colonnade Café/Restaurant*

The Council has made the decision to establish and run a new catering operation at the Colonnade on the Bexhill promenade. In doing so, it will be taking on all of the commercial risk for this venture but may benefit from potential financial surpluses should the business prove to be a success. The main challenge facing the Council will be its limited knowledge of this type of operation since it has not run an in-house catering service for many years. However, it plans to overcome this by using a consultant to oversee the set-up of the café/restaurant, and it is looking to employ an experienced catering manager to run it. Internal Audit will give advice at an early stage and review the adequacy of controls once the new catering operation is properly established.

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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Heads of Paid Service  
On behalf of Rother District Council