

Report to	-	Audit and Standards Committee
Date	-	25 March 2019
Report of the	-	Executive Director
Subject	-	Annual Governance Statement 2018/19

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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 Executive Directors
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**Assistant Director Resources: 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 Heads of Service) 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 AGS 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 2018/19;
- Annual Review of Internal Audit, which is elsewhere on this agenda;
- External Audit "*Annual Audit Letter*" – December 2018; 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

### **Risk Assessment Statement**

The adoption of the AGS 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 Council's Monitoring Officer, Lisa Cooper, Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX or telephone 01424 787813. 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.

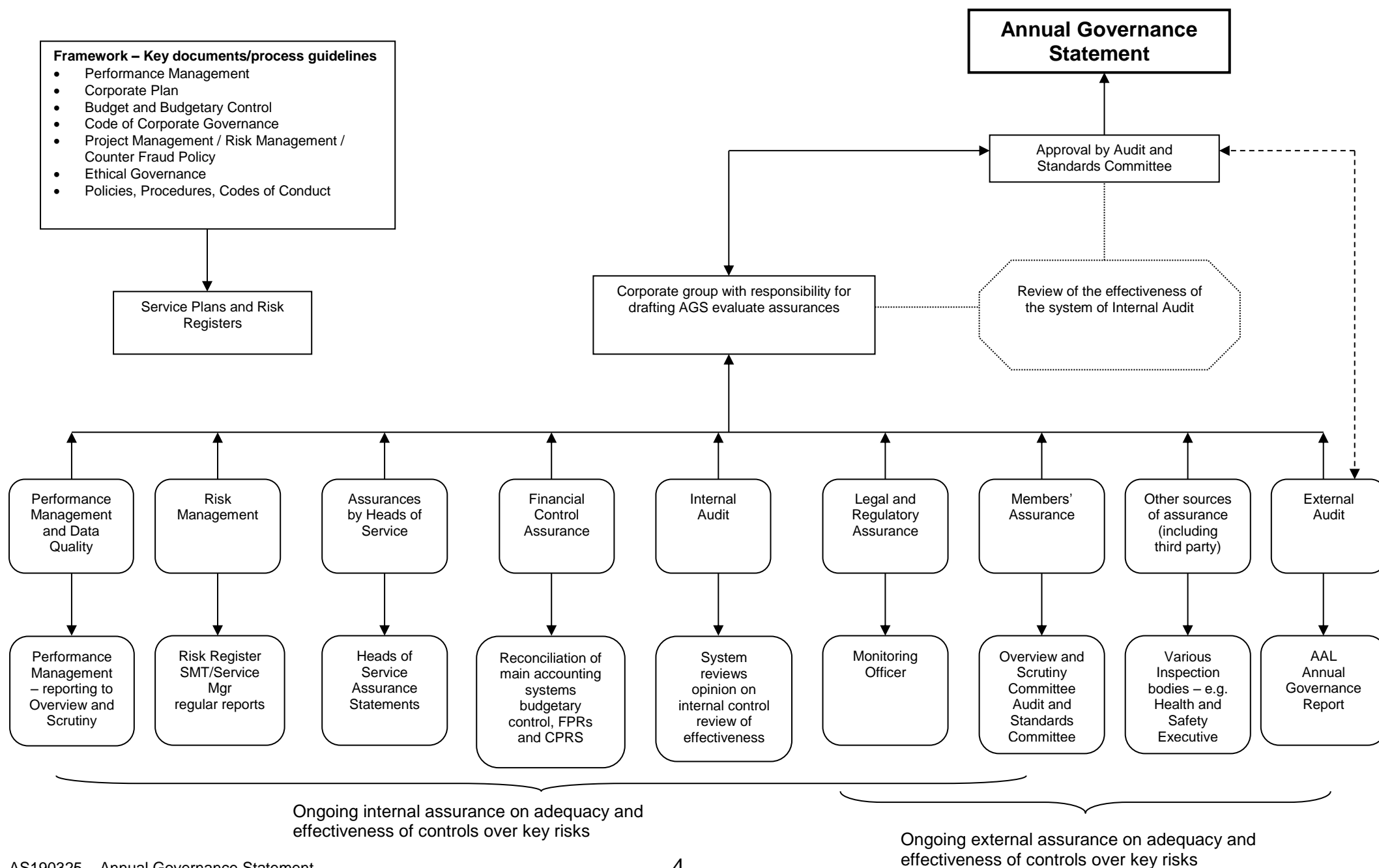
### **The Purpose of the Governance Framework**

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 2019 and up to the date of approval of the statement of accounts.

# ANNUAL GOVERNANCE FRAMEWORK TO 31 MARCH 2019



## **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 Democratic Services Manager was the Council's Monitoring Officer in 2018/19. 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 2018/19, the Audit and Standards Committee (A&SC) 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 and Town Councillor representatives, who usually attend meetings of the A&SC 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 A&SC 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 300 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. 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 Head of Service 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 2018/19 Audit Plan is expected to be completed by the financial year end. At the time of writing this report 83.5% 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 A&SC 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 and quarterly to the A&SC on the audit reviews that have been undertaken, highlighting any significant recommendations that have been made. In addition, 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 A&SC, 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 A&SC 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 2017/18 statement that have yet to be completed:

- Counter Fraud Strategy – a draft Counter Fraud Strategy has been produced but is yet to be finalised. The launch of this strategy was originally postponed pending the outcome of a proposal by the East Sussex Counter Fraud Hub to fund a fixed-term Investigator post, whose duties would have included work in the Hastings and Rother area. However, agreement could not be reached on how this would operate. Negotiations are now underway with Hastings Borough



Council to jointly fund an alternative proposal to enhance the Council's capacity in this 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) – The Council responded well to the introduction of the new regulations. Further work is planned in 2019/20 including providing annual refresher training for staff.
- Revised Communication Strategy – An officer Communications Board supported by service liaison meetings has been established. The Board meets quarterly to best manage planned major communications (e.g. annual council tax billing) and to take on lessons learned from previous communications. The Board will also take on issues raised through the service liaison meetings.
- Revised Procurement Strategy – the Council is working with the East Sussex Procurement Hub (ESPH) to update Procurement Strategies for all member Councils. This work is now long outstanding and is yet to be resolved.
- Update to the Council Workforce Plan – a new workforce plan is in preparation. It will be looking at a number of factors that will direct the skills and training for employees of the Council.
- *Colonnade Café/Restaurant*  
The Council made the decision to establish and run a new catering operation at the Colonnade on the Bexhill promenade. In doing so, it took on all of the commercial risk for this venture but also the potential financial surpluses should the business prove to be a success. The Café operated for a short period during which time the operation was offered to the market for an external operator to run it. This proved successful and the operator took control in December 2018. This will deliver the Council a rental stream from 2019/20.

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

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

**Homelessness Prevention Grants and Loans** – Whilst some progress has been made to improve procedures since the 2017 audit, only limited assurance could be given at the latest review owing to the number of issues that are still outstanding. In particular, management oversight of the authorisation of payments, private landlord checks and the raising of invoices was found to be inadequate.

**Procurement** – This review received a limited assurance rating owing to a number of factors. These include the need for an up-to-date procurement strategy, the absence of any formal agreement with the ESPH regarding service provision, and the failure of some officers to comply with Procurement Procedure Rules when ordering goods or services under £50,000. The need for a formal agreement was further highlighted by the ESPH's failure to finalise the Public Conveniences Cleaning Contract prior to work commencing and the subsequent difficulties experienced in obtaining the required paperwork when the matter was raised with the ESPH.

**Housing Temporary Accommodation** – The limited assurance rating on this audit was due in part to the shortage of temporary accommodation within the district and the increased cost of the service. Steps are now being taken to address these issues and these are outlined in a new Housing, Homelessness and Rough Sleeping Strategy. It should be noted, however, that this is a major piece of work, and any new initiatives may take time to implement.

**U4BW ERP Finance Modules** – This year's Governance Audits have identified a number of issues with the new Finance modules around access rights, workflow/approval procedures and the accuracy of budgetary reports, etc. This demonstrates that there is still further work to be done to ensure that the new system is properly controlled.

Other issues and areas of emerging risk that may impact on the Council include:

**Joint Waste Contract** – A new contract with Biffa Waste Services Ltd is now in place and is due to commence on 29 June 2019. The Council will be managing the performance of the outgoing contractor up to this date whilst simultaneously overseeing the preparations for the start of the new contract. Even with a relatively smooth handover period, the introduction of a major new contract like this has the potential for some short-term local disruption as the new contractor settles in.

**U4BW ERP Implementation Project** – This project was originally due to complete in April 2018, but it is still ongoing. The Finance and Payroll modules have been operational since April and July 2018 respectively, but the implementation of the Human Resources and Self Service modules has been delayed due to staff sickness and other factors. Work on the remaining modules is now at an advanced stage and they are due to go live in early 2019/20.

**BREXIT** – Preparations for the possibility of a no deal exit from the European Union are being made but many of the potential issues fall outside the Council's control. It is therefore difficult to estimate what impact a no deal exit would have. Areas of emerging risk include:

**ERP System Administration Support** – The new U4BW ERP system is far more complex than the old Agresso system ever was leading to concerns about whether there are sufficient resources in place to administer the system effectively, and whether the current arrangement of sharing certain duties with the Finance team are resilient enough to cope if the designated system administrator is absent from work for any length of time. There is a risk that the Council will become overly reliant on potentially costly remote support if it does not have sufficient in-house expertise to administer the system itself.

**Further Reductions in Government Funding** – The reduction in central Government funding continued with a further reduction from £450,000 in 2017/18 to £73,000 in 2018/19. Total formula grant funding from Government ended in 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 2020/21. 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, have had 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. The Council will from

April 2019 be part of the East Sussex 75% Business Rate Retention Pilot. This is expected to increase retained resources in the County but does the Council as a result bears a greater proportion of the risk should business rate income fall.

**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 last service to be delivered through joint working was 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.

**Property Investment** – The Council has commenced a programme of acquisition and development of commercial property in 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 £35m 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 carefully considers all property investment opportunities and seeks 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. Internal Audit intends to review the governance arrangements in 2019/20.

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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Executive Director  
On behalf of Rother District Council