

## **Rother District Council**

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| Report to     | - | Audit and Standards Committee       |
| Date          | - | 18 May 2020                         |
| Report of the | - | Executive Directors                 |
| Subject       | - | Annual Governance Statement 2019/20 |

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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:

- Head of Service self-assessments of their service areas;
- Internal Audit reports for 2019/20;
- Annual Review of Internal Audit, which is elsewhere on this agenda;
- External Audit “*Annual Audit Letter*” – December 2019; 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

Dr Anthony Leonard  
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, 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.

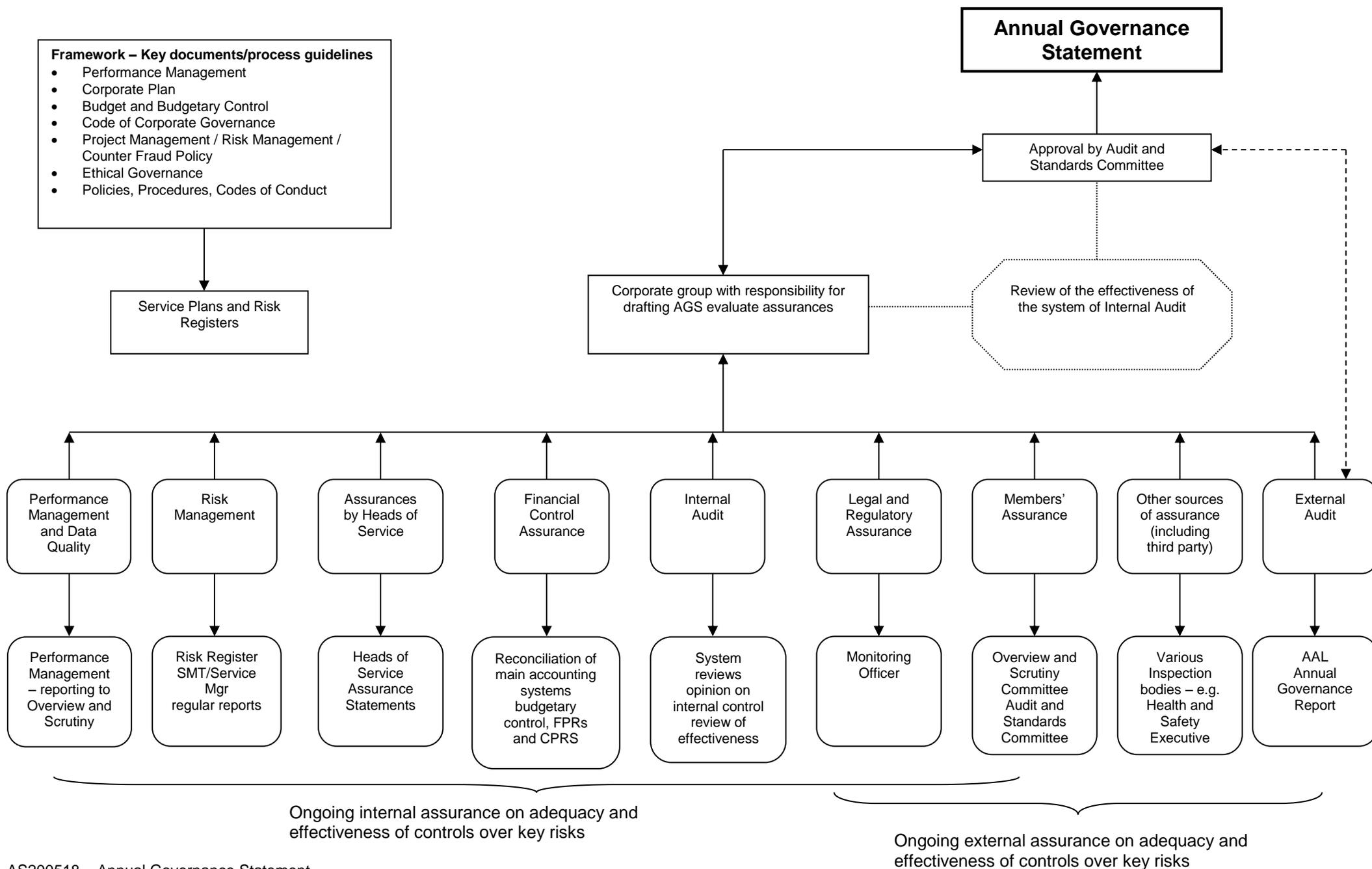
### **The Purpose of the Governance Framework**

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 2020 and up to the date of approval of the statement of accounts.

# ANNUAL GOVERNANCE FRAMEWORK TO 31 MARCH 2020



## **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 2019/20. 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 2019/20, 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 three 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 or Committee Chairman 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 Cabinet. 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 2019/20 Audit Plan is expected to be completed by the financial year end. At the time of writing, 75% had been completed. The Plan includes all core financial audits 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

There are no outstanding issues to report from previous years, save covered in the sections below.

## Internal Audit Reviews Showing Unacceptable Internal Control Environment

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

**Property Investment** – The first audit review of this subject has only recently been completed. As with any new initiative, the Council's approach will take time to develop. It is therefore no surprise that the report highlighted a number of areas where control needs to be strengthened and/or transparency improved. Recommendations for improvement included enhancements to the processes for property evaluation, scrutiny and due diligence.

**U4BW ERP System Administration** – Concerns have previously been expressed about the adequacy of resources to administer the new U4BW ERP system. However since last year the amount of dedicated resource has further reduced. There is an offsite support contract, emergency support from the Council's partner authority and other members of the Finance team provide minimal cover whilst a new resource is recruited. It is however considered a risk in having no system administration support on site available for this major system and follow up on outstanding system issues is minimal. The Council is looking to employ a Deputy System Administrator to address this but it will take time to gain Council specific expertise to effectively administer the system.

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

**Local Government Funding Review and Business Rate Retention Scheme reset** – the impact of the Government's review of local government funding and review of business rates is unlikely to be known until late summer 2020. This is therefore a significant source of uncertainty over the Council's financial stability.

**Achieving a balanced budget** – as a result of the above uncertainty and the projected financial funding shortfall in the Council's Medium Term Financial Plan, there is pressure on the Council to deliver savings and additional income of £3m. A major facet of the current plan is the delivery of savings (£1.3m) through the devolvement of services to alternative providers. Failure to deliver these could result in difficulties in achieving a balanced revenue budget without recourse to using a major proportion of the Council's reserves. The Council's plans in delivering savings need to be fully developed during 2020/21 in preparation of the outcome of the Government reviews.

**Emerging new Corporate Plan** – with the change in May 2019 of the political administration of the Council, a new Corporate Plan is being developed which will have new key objectives. The emerging themes are centred around the environment and new housing. It is likely that resources will need to be redirected to meet these ambitions which will bring a degree of financial and other risks to the Council which will need to be managed.

**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. The Council has 3 main shared services. Building Control and Legal services are provided by Wealden District Council. The shared Environmental Health and Licensing Service with Wealden is provided by this authority. Shared services provided by another Council could limit the Council's ability to maintain the quality of a service, particularly in the short term. The provision

of a shared service for another Council does reduce the Council's flexibility and ability to redirect its resources when committed to delivery of a service for another Council. The Council also jointly procures a number of major contracts including waste collection and street cleaning and grounds maintenance.

**Loss of staff and recruitment** – A number of internal and external factors are having a negative impact on staff morale. Voluntary redundancies are also likely to place additional pressure on remaining staff as the work previously undertaken by their departing colleagues is shared out amongst them. Whilst it is accepted that there is no easy solution to this problem in the current financial climate, low morale increases the risk of staff turnover and this could result in the loss of knowledge and experience which the Council relies upon moving forward. In addition, 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. The Council's ability to deliver services and projects can be severely compromised by the inability to recruit, combined with the retirement of qualified and experienced staff. This may be resolved in a few years if the Council employs and trains Apprentices in these professional roles.

**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 also needs to have regard to Government and CIPFA advice and guidance on commercial investments. 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.

**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 continues to be delayed primarily due to problems with system functionality. It is now hoped that these issues will be overcome in order to go live in April 2020 but if this is not achievable, the Council may have to consider an alternative way forward.

**Risk Management** – Whilst risk is regularly considered by Senior Management this process is not always documented. Consequently, the corporate risk register, which should include all of the major risks facing the Council, is not being regularly updated and actively monitored at present. Furthermore, following the departure of the Service Manager who was previously responsible for maintaining the Risk Management Policy and Framework, it is currently unclear who has been assigned this role. There is therefore a need for greater corporate oversight of risk management activity.

**Major Projects** – The Council will be undertaking a number of high profile projects over the next few years with the aim of delivering housing and economic regeneration to the district. Most of which are being project managed by the Special

Projects team in the Acquisitions, Transformation and Regeneration Service. Some projects will need to be managed by officers within the relevant departments (in addition to their normal day jobs) and not all of these may have project management experience. There could be substantial financial and reputational risks if the Council fails to successfully deliver these projects.

**Post Exit of European Union** – As negotiations commence on a new trading treaty with the European Union the impact on the Food Control work of the Environmental Health Service remain uncertain in relation to the export and importation of food, which would have resource implications for the shared service with Wealden District Council.

**Pandemic Flu** – The emergence of the Covid-19 virus increases the risk of a Pandemic Flu outbreak in 2020/21. This could have a serious impact on Council services if significant numbers of staff were absence due to sickness or quarantine.

**Climate Change Emergency** – The actions the Council will need to take to meet its Climate Change Emergency commitments may limit some service provision or increased costs, particularly around reduction in car mileage for visiting Officer, the provision of electric vehicles and heating costs.

**Joint Waste Collection and Street Cleaning Contract** – The emerging risks associated with the Joint Waste Contract arrangement in 2018/19 were effectively managed Spring to Autumn 2019 with minimal services impact. Some residual risk of service disruption remains pending Biffa Municipal Ltd' final decisions on the need to re-route collection services in 2020. This risk is therefore recorded in the Joint Waste Partnership risk register and being managed through the established joint waste contract management systems

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 Doug Oliver  
Leader of the Council  
On behalf of Rother District Council

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Executive Director  
On behalf of Rother District Council