

Report to	-	Resources Overview and Scrutiny Committee
Date	-	25 June 2012
Report of the	-	Director of Resources
Subject	-	Annual Governance Statement

Whilst considering matters under the Audit, Regulatory and Accounting Activity the Committee can report directly to Council, if necessary, and retains independence from Cabinet and the Overview and Scrutiny functions for these activities.

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 Chief Executive.
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Heads of Service: Robin Vennard, Suzanne Collins and David Palmer

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 its Code of Corporate Governance. In undertaking the annual review the following sources of assurance were considered:
- Head of Service self assessments against a number of key evaluation Criteria (currently being consulted, verbal update will be given as appropriate);
 - Internal Audit reports for 2011/12;
 - Annual review of Internal Audit, which was reported to the March 2012 meeting;
 - External Audit “*Annual Audit letter*” – December 2011; and
 - External Audit “*Annual Audit plan*” – March 2012.

Annual Governance Statement

4. The review work looked at two aspects: progress against last years’ areas identified for improvement and any new issues arising from the various sources of assurance outlined above. Those issues still to be resolved and new ones for 2011/12 are shown below.
5. In terms of internal control there have been areas where increased risk has been identified. These include:
- (i) For 2011/12 and 2012/13, the Government has significantly reduced funding for local government. Rother saw a reduction of £1m and £0.7m respectively. Beyond these years the indications are that funding will continue to be under extreme pressure as the current Government seeks to reduce public spending. In response, to meet this challenge the Council commenced on a programme of service resetting which has enabled a balanced budget for both financial years whilst retaining an appropriate level of reserves. Measures taken include voluntary redundancies thereby reducing the size of the workforce. The proposed return of Business Rates to a degree of local control presents further risks to the Council in maintaining income in a depressed economic climate. As a consequence there is risk of challenge to the Council if service performance deteriorates and/or non-statutory services cease to be delivered.
 - (ii) The cuts in funding in the public sector also presents risks to working with partner organisations, particularly public and voluntary partners. Partners are likely to have to review and change priorities which could impact on the continuation of services. Maintaining good communication links with partners is therefore essential to the management of service risks.
 - (iii) The Council is working on delivering a number of joint services including a joint waste contract with Wealden, Hastings and Eastbourne Councils, joint legal and internal audit services with Wealden District Council (WDC). In September 2011 the Council implemented a joint Building Control service with Hastings Borough Council. Governance of these partnerships has and will form part of inter authority agreements but will need to be reviewed and tested periodically. As part of the review process there is a

need to obtain client feedback in terms of their satisfaction which will be undertaken by the relevant Head of Service. For Internal Audit this is planned to happen in 2012/13.

- (iv) The restructure of internal departments following the departure of two Heads of Service and a number of officers through the voluntary redundancy scheme has resulted in issues concerning segregation of duties which are being resolved. Robust monitoring of individual and service based performance will be key in identifying failing areas within the Council over the coming two years. Additionally there is a risk of service failure/errors due to the loss of experienced staff with detailed knowledge of the operation of Council services and the district environment.
- (v) Due to the economic conditions, it is essential that communication between the Council, its treasury advisors Sector, and its Fund Managers, Investec, are sound to ensure that where counterparties' financial rating deteriorates action is taken to protect the Council's resources.
- (vi) The review of the Council's Business Continuity Plan remains outstanding. The delay was due to the need to allow for the organisational structure changes to be finalised. As this is now complete, the formal review of the Plan can take place during the remainder of 2012.
- (vii) The need to improve housing benefit overpayment monitoring arrangements was identified. As the total debt for housing benefit overpayments is in excess of £1m, this is particularly important as the Council enters into its Legal partnership with Wealden District Council.

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
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 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. Rother District Council 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, Rother District Council 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.

Rother District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website or can be obtained from Head of Corporate Services, Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX or telephone 01424 787716. This statement explains how Rother District Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

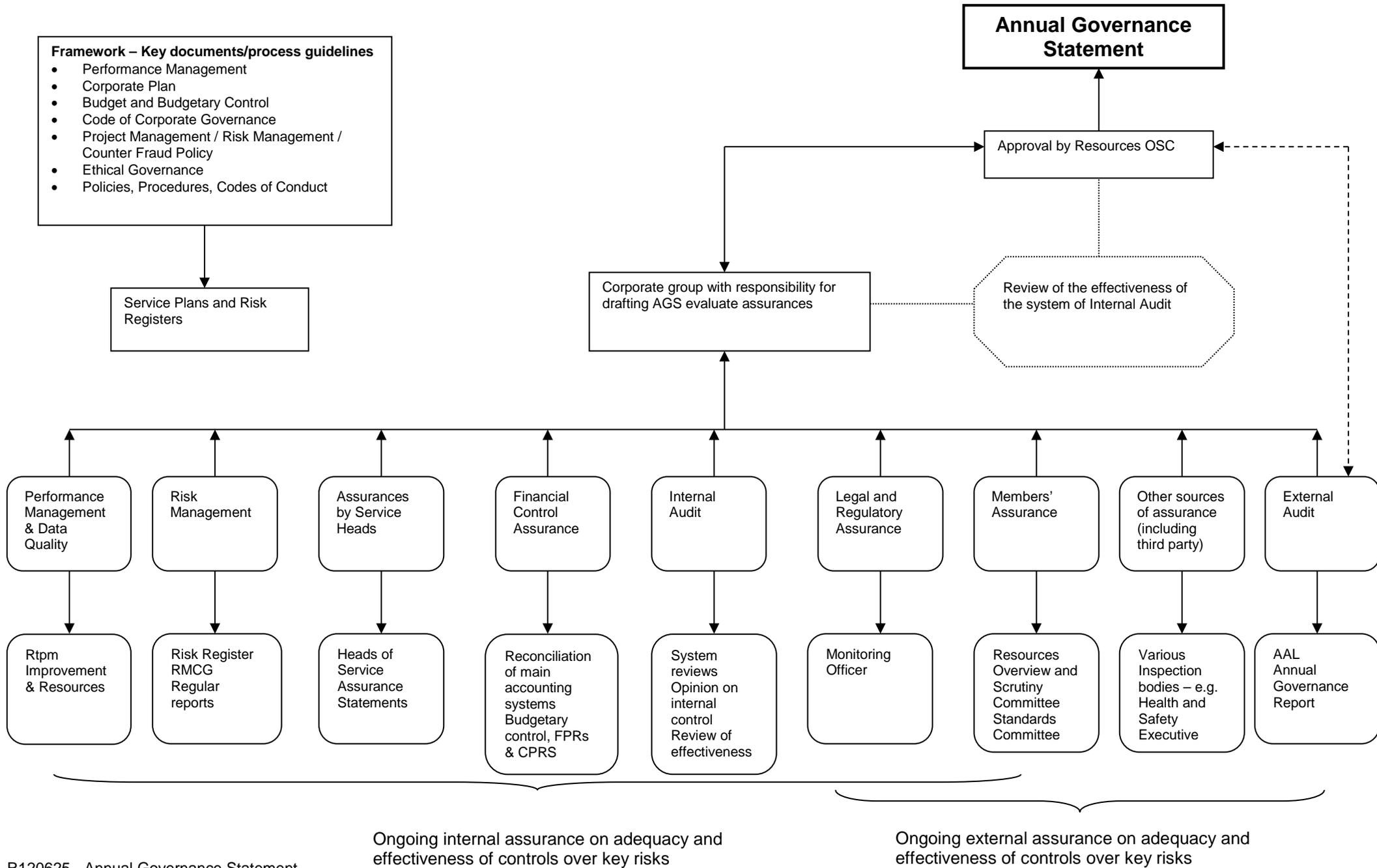
The purpose of the governance framework

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 ongoing 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 2012 and up to the date of approval of the statement of accounts.

ANNUAL GOVERNANCE FRAMEWORK



Review of effectiveness

Rother District Council 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 Head of Corporate Services' annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Performance Management and Data Quality

The Rother Sustainable Community Strategy sets out the vision for the district and a number of priority areas for improvement in local quality of life. These are picked up in our ten-year Corporate Plan. The Corporate Plan is delivered through a programme of projects, which are project managed against well-defined plans and monitored by a Programme Board. The Corporate Plan is regularly monitored by Members and will be reviewed through a biennial Corporate Plan Review.

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

Putting Customers First
Delivering Value for Money
Building Stronger, Safer Communities
Working in Partnership

Performance is monitored against a series of measures including in 2010/11 the National Indicator Set (NIS) measures. Benchmarking against national quartiles has been a key aspect of performance management. Strategic Management Team and the Resources Overview and Scrutiny Committee routinely carry out high-level oversight of performance. The Committee receives detailed quarterly reports against which actions and resource allocation recommendations are determined for action by Cabinet.

During 2011/12 Rother District Council used a specialised real time performance management system, branded locally as RtPM, which captures and analyses data not only for the Council but also for its strategic partners across the district. This management information incorporates robust data quality features. Data quality is also managed through a Member Champion (Chairman of ROSC) and service representatives across the organisation. Quality control processes include Head of Service sign off, risk assessment and internal auditing of measures and their data.

Risk Management

Rother District 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. Training has been provided for both Members and staff and a programme of risk assessments continues. 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 further work needs to be undertaken 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. A copy of the code is on our web site or can be obtained from the Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX.

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 both roles is the vetting of the agenda, reports and minutes of all meetings.

The role of Solicitor to the Council is currently under review as a result of the shared Legal service.

Members' Assurance – Resources Overview and Scrutiny Committee

Council has delegated responsibility for internal control to the Resources Overview and Scrutiny Committee. This role had been undertaken by the Audit Committee prior to April 2011. Following a review of the Council's committee structure, the role and responsibilities of the Audit Committee transferred to the Resources Overview and Scrutiny Committee from 2011/12.

During 2011/12 the Resources Overview and Scrutiny Committee, received and scrutinised quarterly reports from the Head of Corporate Services/Head of Internal Audit 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

During 2011/12 the Standards Committee comprised six District Councillors (two Conservatives, two Liberal Democrats, one Labour and one Association of Independents), three independent lay members and three Town & Parish Councillor representatives, and meets quarterly. In discharge of the responsibilities placed upon it by statute (promoting and maintaining the highest standards of conduct, assisting Members to observe the Code of Conduct, monitoring the operation of the Code and advising and training Members on matters relating to the Code), the Committee receives regular reports from the Monitoring Officer. These include details of all complaints received in connection with potential breaches of the Code of Conduct by Councillors of the District or any Town and Parish Councils within the Rother area, Standards for England publications, training undertaken, annual audits of registration regimes and requests made for dispensations. The Committee has also set out a work programme to ensure its policies and procedures are kept up to date and fit for purpose. The Committee has also completed a programme of visits to all Parish and Town Councils within the area to raise awareness of the

requirements of the Code and to assist Parishes in complying with those requirements. An opportunity is afforded at the end of each quarterly meeting to share any learning from the operation of the system for the local determination of complaints. 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 regular quarterly reports and an annual report on the Council's whole year performance.

As a result of the Localism Act 2011 the Standards Regime will be changing with effect from 1 July. The new regime sees changes to the Standards Committee's Code of Conduct, the handling of complaints against Members and Registrable interests giving Councils the ability to set their own procedures in respect of all these aspects.

Assurances by Heads of Service

In addition to the Internal Audit reviews, Heads of Service are required on an annual basis to complete a Managers Assurance Statement covering internal control within their Service.

Other Sources of Assurances

Apart from the work of internal and external audit, there were no other inspections which raised any governance issues for the Council.

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 and Section 151 Officer and the Audit Committee. Progress against the Audit Plan was 91%. All core financial audits were completed together with the audits that had been categorised as high risk within the Plan.

The Head of Corporate Services/Head of Internal Audit reports quarterly to the Resources Overview and Scrutiny Committee on the audit reviews that have been undertaken highlighting any significant recommendations that have been made. In addition the Strategic Management Team and 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 report on the Council's financial performance, value for money and a review of the effectiveness of the governance arrangements.

Assurance that the authority's financial management arrangements confirm with the governance requirements of the CIPFA Statement on The Role of the Chief Finance Officer in Local Government (2010)

In large part the Council's arrangements do conform with the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2010). In one respect they do not, in that the Chief Finance Officer (Head of Finance) does not report directly to the Chief Executive nor does he have at least equal status as all other members of the Corporate Management Team. The local arrangements are that the Head of Finance reports to the Director of Resources. The Head of Finance has right of attendance at Strategic Management Team and has access to all members of the leadership team. In addition, the Head of Finance has access to the Resources Overview and Scrutiny Committee (in its capacity as Audit Committee) and the internal and external auditors. In performing the role, the Head of Finance is able to bring influence to bear on all material decisions of the Council through advice and guidance on all corporate reports. As part of that role, the Head of Finance leads on the budget monitoring reports, financial strategy reports and is able to promote to the organisation the delivery of good financial management. In discharging this role, the Head of Finance is supported by a team of officers and these arrangements ensure that the Head of Finance has adequate resources to support the design and maintenance of sound financial governance arrangements. Currently the Council does not have a Deputy Chief Finance Officer.

As a result, it is considered that these arrangements allow the Head of Finance to have the same impact within the organisation than if the specific arrangements proposed in the CIPFA Statement were in place.

Significant governance issues

In terms of internal control there have been areas where weaknesses have been identified through the 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.

- (i) For 2011/12 and 2012/13, the Government has significantly reduced funding for local government. Rother saw a reduction of £1m and £0.7m respectively. Beyond these years the indications are that funding will continue to be under extreme pressure as the current Government seek to reduce public spending. In response, to meet this challenge the Council commenced on a programme of service resetting which has enabled a balanced budget for both financial years whilst retaining an appropriate level of reserves. Measures taken include voluntary redundancies, thereby reducing the size of the workforce. The proposed return of Business Rates to a degree of local control, presents further risks to the Council in maintaining income in a depressed economic climate. As a consequence there is risk of challenge to the Council if service performance deteriorates and/or non statutory services cease to be delivered.

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- (viii) The Council is working on delivering a number of joint services including a joint waste contract with Wealden, Hastings and Eastbourne Councils, joint legal and internal audit services with Wealden District Council. The Council implemented in September 2011 a joint Building Control service with Hastings Borough Council. Governance of these partnerships has and will form part of inter authority agreements but will need to be reviewed and tested periodically. As part of the review process there is a need to obtain client feedback in terms of their satisfaction which will be undertaken by the relevant Head of Service. For Internal Audit this is planned to happen in 2012/13.
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- (v) The review of the Council's Business Continuity Plan remains outstanding. The delay was due to the need to allow for the organisational structure changes to be finalised. As this is now complete, the formal review of the Plan can take place during the remainder of 2012.
- (vi) The need to improve housing benefit overpayment monitoring arrangements was identified. As the total debt for housing benefit overpayments is in excess of £1m, this is particularly important as the Council enters into its Legal partnership with Wealden District Council.

We propose over the coming year to take steps to address the above 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.

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

Derek Stevens
 Chief Executive
 On behalf of Rother District Council