

## **AUDIT COMMITTEE**

**11 JULY 2013**

### **ANNUAL GOVERNANCE STATEMENT**

Report from: Perry Holmes, Assistant Director Legal & Corporate Services,  
Monitoring Officer

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#### **Summary**

To explain the requirements for reporting and approving an Annual Governance Statement (AGS) (formerly known as the Statement on Internal Control (SIC)) covering the financial year 2012/13, and to seek comments and approval of the Statement.

#### **1. Budget and Policy Framework**

1.1 The purpose of the report is to provide Audit Committee with details of the Annual Governance Statement for comment and approval. The Annual Governance Statement is within the budget and policy framework and is a matter for the Audit Committee to consider.

#### **2. Background**

2.1 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.

2.2 The Council approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework for Delivering Good Governance in Local Government. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

2.3 There is a prescribed layout for the AGS that requires the Council to set out its governance arrangements and key elements of internal control and the sources of assurance; a review of the effectiveness of those governance and internal controls and a requirement to identify significant governance issues. The Council must ensure that it can provide evidence for any of the systems of internal control included in the AGS.

- 2.4 Guidance issued by CIPFA regarding the statement also recommends that a suitable independent management group should review the content of the AGS. The Council's Audit Committee will undertake this role. The Chief Executive and the Leader of the Council will sign the statement once the Audit Committee has approved it.

### **3. Annual Governance Statement**

- 3.1 The AGS (formerly known as the SIC) explains how the council has complied with the local code, how we are complying with regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control. In addition, as before, there is a section setting out any future actions that may be needed to strengthen our corporate governance arrangements. The Annual Governance Statement (AGS) is the formal statement that recognises, records and publishes an authority's governance arrangements.
- 3.2 It is designed not only to give an opportunity for authorities to consider the robustness of their governance arrangements, but also provide an accurate representation of arrangements in place during the year and to identify areas where improvement is required.
- 3.3 Regulations requires the Council to conduct a review at least once a year of the effectiveness of its system of internal control and to publish a statement on internal control each year with the Council's financial statements

### **4. Risk Management**

- 4.1 Failure to produce an Annual Governance Statement would lead to a serious weakness in the Council's internal controls and would be a breach of its statutory duty.

### **5. Financial implications**

- 5.1 There are no financial implications arising directly from this report.

### **6. Legal implications**

- 6.1 The legal implications arising directly from this report are set out in the main body.

### **7. Recommendations**

- 7.1 Members are asked to comment on and approve the draft Annual Governance Statement.

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**Background papers:** None.

**MEDWAY COUNCIL**  
**ANNUAL GOVERNANCE STATEMENT: 2012/13**

**1. Scope of responsibility**

Medway Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The 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 a regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council approved a local code of corporate governance at its meeting on 13 November 2008, and this is consistent with the principles of the CIPFA/SOLACE *Framework for Delivering Good Governance in Local Government*. The code is set out within the Council's constitution and a copy of the current code is on our website at [www.medway.gov.uk](http://www.medway.gov.uk) and can also be obtained from the Monitoring Officer at Medway Council, Gun Wharf, Dock Road, Chatham (01634) 332133. The code is reviewed each year to ensure it remains fit for purpose.

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of a governance statement.

**2. The purpose of the governance framework**

The governance framework comprises the culture and values, systems and processes, 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 the framework and is designed 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 the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

The following section of the statement summarises Medway Council's governance framework that has been in place for the year ended 31 March 2013 and up to the date of approval of this Statement. The framework described reflects the arrangements in place to meet the six core principles of effective governance.

### **3. The Council's framework for ensuring compliance with the core principles of effective governance**

#### ***(a) Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area***

The council works with its partners to set the vision and priorities for the area. The council manages a process of bringing together performance data, demographic information and consultation findings to determine key shared priorities.

The council's well established 'framework for managing performance' at Medway Council sets out how the Council Plan helps to inform and shape the council's own priorities.

In 2013 the council again produced the council plan, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2013 the council refreshed the council plan. It forms an essential part of the council's governance framework, setting out the council's priorities and the measures against which success will be judged.

#### ***(b) Members and Officers working together to achieve a common purpose with clearly defined functions and roles.***

The Council has ensured that the necessary roles and responsibilities for its governance are identified and allocated so that it is clear who is accountable for decisions that are made. The Council has done this by:

- Appointing a four year Leader of the Council; executive members (Cabinet Members), with defined executive responsibilities, including appointing a lead member for Children's Services, with responsibility for making sure the statutory functions for Children's Services are carried out.

- Agreeing a scheme of delegated executive responsibilities to directors, deputy directors, assistant directors and other senior officers and protocols that make clear the respective roles of Members and officers and ensure effective communication between them. This has been amended in 2013 to include delegations to the new Director of Public Health and the advent of two Deputy Director posts.
- Annually appointing committees to discharge the Council's regulatory responsibilities
- Annually appointing committees to discharge the Council's overview and scrutiny responsibilities
- Setting clear role definitions for chairs of committees and councillors in their different roles
- Ensuring that the Constitution is regularly reviewed – several amendments have been made to the Constitution this year including the addition of Public Health responsibilities.
- Making the Chief Executive (the Head of Paid Service) responsible and accountable to the Council for all aspects of operational management.
- Making the Assistant Director of Legal & Corporate Services (as Monitoring Officer) responsible to the authority for ensuring the lawfulness and fairness of decision-making, and that agreed procedures are followed and that all applicable statutes and regulations are complied with.
- Making the Chief Finance Officer (as Section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. Medway Council's financial management arrangements conform with the governance requirements of the CIPFA Statements on the Role of the Chief Financial Officer in Local Government (2010).
- Making the Director of Children and Adults Services responsible to the authority for ensuring that the statutory functions of children's services and adults services are carried out
- Ensuring that it looks to strengthen arrangements regarding significant partnerships and contracts with other public bodies, voluntary and community organisations, and the private sector so that there are clear governance accountabilities, including effective and equitable financial arrangements
- Having in place effective and comprehensive arrangements for the scrutiny of services including a Scrutiny Officer (the Deputy Director, Customer Contact, Leisure, Culture, Democracy & Governance)

***(c) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour***

The Council promotes and maintains high standards of ethical conduct of members and officers through the work of its Councillor Conduct Committee. The Council fosters a culture of behaviour based on shared values, ethical principles and good conduct.

The Council has done this by establishing and keeping under review:

- The Council's Constitution
- A Members' Code of Conduct
- An Employee Code of Conduct
- A protocol governing Member/Officer Relations
- A Members' Planning Code of Good Practice
- A Members Licensing Code of Good Practice
- Communications Protocol
- Contract Standing Orders and Financial Regulations

The Monitoring Officer is responsible for the review of the constitution, and for ensuring that it is kept up to date.

Conduct of Members is monitored by the Councillor Conduct Committee, which also considers investigations of allegations of misconduct by Members. The Councillor Conduct Committee has overseen the move in July 2012 to a new "light touch" conduct regime. There has been a substantial reduction in councillor conduct complaints with two formal complaints where no further action was taken this year. The new conduct process involves a strong emphasis on informal resolution.

The Council takes fraud and corruption very seriously and has considered the following documents at the Audit Committee during the year:

- An Anti- Bribery Act policy (July)
- A Fraud Resilience Strategy (September)

The outcome of complaints made under the whistle blowing policy is reported to the Audit Committee on an annual basis, in order that they can keep it under review.

***(d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk***

The Council has ensured that the decision-making process includes a rigorous risk assessment including:

- Financial, legal and staffing implications
- Diversity and racial impact assessment
- Risks, mitigations and opportunities

All reports to the Council or Cabinet are checked by the Chief Finance Officer and the Monitoring Officer for financial and legal implications. The Council has been rigorous and transparent about how decisions are taken and recorded. Cabinet reports now also include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.

The Council has:

- Ensured the Cabinet make decisions with reasons in an open and transparent way and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that all decisions of regulatory committees of the Council are made in public and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that legal, financial and risk implications are recognised in all reports on which decisions are based
- Recorded all decisions that are made by committees and those decisions delegated to senior named officers by Cabinet in line with the executive decision making regulations that came into force in 2012.
- Rules and procedures, which govern how decisions are made.
- Developed and maintained an effective overview and scrutiny function which encourages constructive challenge
- Maintained an effective Councillor Conduct Committee and Audit Committee
- On 6 December 2012 the Business Support Overview and Scrutiny Committee considered a report reviewing the Overview and Scrutiny function in Medway and how it compares with other local authorities. The report also provided a response to concerns raised by Members about how the e-petition facility in Medway was currently working. The review concluded that Medway's arrangements reflect best practice and identified a number of areas for further development locally. The improvement programme includes further Member development around use of performance information and

scrutiny of partners, review of methodology used for task group work, scope for collaboration with Universities in Medway in relation to research and review of programming of the Overview and Scrutiny committee timetable to maximise capacity.

The Council has continued to develop its risk management strategy to enable the Council to manage and control risks in order to maximise the quality of its service provision and uphold its reputation, making a powerful contribution to continuous service improvement and the achievement of best value. The strategy is reviewed annually.

The Council has ensured that under the risk management system:

- Officers formally identify and manage risks
- Elected Members are involved in the risk management process
- A risk assessment of every key or strategic decision is undertaken
- Risks to financial and other key internal controls are mapped
- Business continuity planning is reflected; and
- The Cabinet reviews and, if necessary, updates its risk management processes at least annually
- Detailed risk assessment of budgets are carried out with signed acceptance form from managers highlighting risk areas

***(e) Developing the capacity and capability of Members and officers to be effective.***

The Council has ensured that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well.

The Council has done this by:

- Retaining the Member Development Charter
- Developing leadership skills and capacity across the Council through a learning and development programme for staff
- Ensuring that the Chief Finance Officer and Monitoring Officer are both members of the Corporate Management Team
- Developing our approach to workforce planning for example through a graduate recruitment scheme
- Obtaining Gold status for Investor in People accreditation across all directorates
- Encouraging quality mark accreditation for services such ISO in Legal and Corporate Services
- Maintaining and developing our personal development review system



- Cascading regular information to Members and staff by paper and electronic means, having regard to diversity issues
- Holding a full induction programme for all Members to attend

***(f) Engaging with local people and other stakeholders to ensure robust public accountability.***

The Council is committed to increasing public involvement in decision-making and devolving power to individuals and local organisations. We have sought and responded to the views of stakeholders and the community. The Council has done this by:

- Improving effective corporate consultation including maintaining effective mechanisms for ongoing engagement e.g. community cohesion group, Children in Care Council, Young Commissioners, Tenants Forums, Medway Ambassadors Scheme and the Community Safety Partnership
- Carrying out in depth consultation exercises as required to inform policy development and service change – e.g. Maintaining effective data exchange through the Corporate Research and Information Group to plan and coordinate consultation and to share findings
- Making use of local forums at ward, parish and neighbourhood level to maintain communication with all the Council's communities and other stakeholders e.g. Rural Liaison Committee with parishes, community futures workshops in our most deprived areas to inform the development of community owned action plans, participation in Partner and Communities Together (PACT) meetings
- Maintaining and reviewing an effective complaints procedure

#### **4. Review of effectiveness**

Medway Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the Corporate Management Team who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit, and also by comments made by the external auditors and other review agencies and inspectorates.

Throughout 2012/13 the Council has received and considered a number of reports including: -

- (a) Constitutional Matters
- (b) Exemptions to the contract procedure rules
- (c) Councillor Conduct Complaints update
- (d) Localism Act 2011 update

- (e) Statement of Accounts 2011/12
- (f) Budget Report 2013/14 and Medium Term Financial Strategy
- (g) Council Plan 2013/14
- (h) Revisions to the Whistleblowing Policy
- (i) Special urgency decisions

Cabinet has considered and approved a number of reports in its role as the executive: -

- (a) Revenue budget monitoring 2012/13
- (b) Capital Budget monitoring 2012/13.
- (c) Council Plan Monitoring 2012/13
- (d) Annual Audit Letter 2012
- (e) Six monthly review of the risk register
- (f) Annual Review of the Risk Management Strategy
- (g) Medium Term Financial Plan 2013/15
- (h) Statement of Accounts

The Audit Committee have considered a wide variety of issues including: -

- (a) Annual review of the whistle blowing policy to include breaches of data protection
- (b) Internal Audit Annual Plan 2012/13
- (c) Audit Commission Audit and Inspection Plan
- (d) 2011/12 Annual audit letter
- (e) Fraud Resilience Strategy

An annual review of the code of corporate governance checks the control environment within the two directorates and the business support department, and the results of this review has been used to inform our assessment of significant control issues for the Council.

Assurances have been provided from the Corporate Management Team that key elements of the control framework were in place during the year in their divisions and control weaknesses were identified and addressed.

## **5. Governance: Key Areas of Focus**

The Authority faces another extremely challenging year in 2013/14 as it seeks to manage significant budget reductions, increasing demand for some services and new ways of working, whilst ensuring it complies with its statutory duties. The following represent the key issues to be addressed in relation to significant governance issues: -

(a) A continuation of the significant reductions in Government grant funding for 2013/14 of £12m rising to a gap of circa £50m by 2020 in addition to the ongoing demands for greater expenditure, particularly for children's services and older people. The Council has plans in place to respond to the challenges for 2013/14 but the budget reductions will require careful monitoring and immediate action if they fall behind during implementation. The Council will need to ensure that decisions are taken with "due regard" for the Public Sector Equality Duty given the spate of successful legal challenges linked to budget reduction decisions nationally.

(b) The move to the local retention of business rates and the local management of national welfare benefit reforms will have a significant impact on the local community and pose a considerable financial and reputational challenge to the council. These measures will start to take effect this year after careful preparation and profiling of potential impacts. The on-going effect of these changes will need to be monitored.

(c) An "inadequate" Ofsted report on child protection services has required a detailed and comprehensive response from the Council including the setting up of an Improvement Board. Senior Members and Officers and external experts are overseeing the delivery of a suite of recommendations designed to put right the short comings identified. The success of the improvement plan is critical to the Council.

(d) The project to move the new public health responsibilities to the Council was a success seeing the transfer of staff, information and ring-fenced budget provision. The challenge facing the Council is now to embed those responsibilities and to ensure that consideration is given by all services to improving and promoting public health. The novation of a suite of public health contracts will now lead to work to align spend on public health and well-being as part of Category Management with other linked council initiatives.

Responding to changes within the wider health system that impact on council governance and commissioning arrangements. 2012/13 saw the creation of a joint commissioning team for health and social care drawing resources from both the council and the clinical commissioning group. The challenge is to ensure clear identification of shared outcomes and effective mechanisms for decision making on pooled resources and appropriate sharing of risk and reward if investment by one partner will give benefits to the other. More broadly the establishment of the Health and Wellbeing Board as a committee of the council is an important addition to the council's governance arrangements. The effective operation of local

Healthwatch will be an important test of the council's commitment to resident involvement in shaping and evaluating services.

(e) Better for Less (BfL), the Council's transformation programme, is ongoing and in 2013/14 we move into phase 3 to improve our customer contact and administration across the Council. The Category Management initiative has been implemented and is seeking to get better value from the goods and services we procure. The BfL programme is challenging and ambitious and plans to deliver substantial savings to the Council of £13.9m (cumulative) as well as transforming and improving our services. This together with some initial specified Category Management savings is a significant factor in achieving financial stability. The programme will move to its next phase focusing on management of demand for services, as well as continuing to look for further supply side efficiencies.

(f) As the Category Management approach to procurement starts to become embedded the identification of additional savings and service re-design possibilities from smarter procurement will become clear. These will require capacity within the services to enable successful delivery. As part of this new approach the development of a joint venture company, Medway Norse, for the delivery of traditional facilities management services to the council will require a significant transition project. The multiple challenges to this new approach will include fostering an effective partnership relationship with Norse, the chosen joint venture partner. There will also be challenges to mobilize the new company, transfer relevant staff, maintain and improve service quality standards, reduce costs and identify and remove central overhead costs.

The changes to the system for receiving and processing complaints against Councillors has been successfully undertaken. There has been a dramatic reduction in the number of complaints made.

Capital projects pose an ongoing challenge to the Council as a means to provide improved infrastructure and facilities to the community whilst involving careful project management. Structural changes are being implemented including a new central capital projects team and Member led Capital Boards for the two Departments.

The Council has taken steps to improve project management standards corporately and the success of this initiative will be monitored.

## **6. Certification**

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year 2012/13 although we recognise the areas for additional focus identified in section 5.

We are satisfied that these enhancements will address the need for improvements that were identified in our review of effectiveness and will we monitor their implementation and operation and conduct a further annual review.

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Leader of the Council

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Chief Executive