

AUDIT COMMITTEE

14 JULY 2015

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) covering the financial year 2014/15, 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. The AGS which is at Appendix 1 to this report 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 Following a review of best practice examples of other AGS the format has been amended slightly, placing the supporting information towards the end of the document so that the controls in place read more fluently.

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 is the formal statement that recognizes, records and publishes a Council's governance arrangements.

3.2 It is designed not only to give an opportunity for Councils 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 or particular focus is needed.

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 Annual Governance Statement.

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Appendices

Appendix 1 – Annual Governance Statement

Background papers: None

B. Annual Governance Statement



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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 is on our website at 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, for example it was amended in 2012 to reflect changes to Councillor Conduct Complaints under the Localism Act 2011.

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 on-going 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 2015 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 Governance Framework

(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 2015 the council reviewed the Council Plan 2013-15, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2015 the council refreshed the Council Plan performance indicators. The Plan 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.

(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 takes fraud and corruption very seriously and has:

- An Anti-Bribery Act policy
- A Fraud Resilience Strategy
- An Anti Money Laundering Policy

The outcome of complaints made under the whistle blowing policy are reported to the Audit Committee on an annual basis, in order that they can keep them 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 where appropriate
- 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 include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.

(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.

(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.

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's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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 have been used to inform our assessment of significant control issues for the Council.

"The AGS provides a reasonable and evidenced summary of the Authority's governance arrangements, which meets the requirements of the CIPFA/SOLACE framework. The overall opinion on the AGS is therefore **"strong"**."

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 challenging year in 2015/16 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 and the on going demands for greater expenditure, particularly for children's services and older people. In advance of the Chancellor of the Exchequer's emergency budget in July it is difficult to be more specific. The Council has plans in place to respond to the challenges for 2015/16 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. The FIT Board chaired by the Leader of the Council will need to ensure the robustness of saving proposals contained in the budget including the savings target associated with category management.
- (b) An "inadequate" Ofsted report on child protection services and a subsequent "inadequate" for safeguarding and looked after children has required a detailed and comprehensive response from the Council including the setting up of an External Improvement Board. Senior Members and Officers and external experts and stakeholders are overseeing the delivery of a suite of recommendations designed to put right the issues identified. The success of the improvement plan is critical to the Council. An Internal Improvement Board has also been set up to drive the recommendations made. It is anticipated that Ofsted will return to test the efficacy of the Council's response this year. The Council has increased its awareness and understanding of Child Sexual Exploitation and has responded by deepening our partnership with the police and strengthening the Medway Safeguarding Children Board to provide strategic oversight on this emerging area of practice.
- (c) In the wake of the May 2015 General Election and simultaneous all out Council elections in Medway, a new Council administration now has a four year term to make policy changes should it choose to do so. Any changes in policy will need to be carefully managed to ensure appropriate levels of consultation and other preparatory considerations take place to ensure robust decision making that can stand challenge. New service delivery models if proposed will also need to be planned and managed to minimise risks to customers and to the Council's revenue budget.
- (d) A focused programme of work ensured that Medway Council introduced the reforms needed to meet its new duties and responsibilities under the Care Act, the biggest transformation in social care in a generation, from 1 April 2015. These included steps to assist people accessing care and support, support for unpaid carers, offering a deferred payment scheme[i] as well as meeting its new responsibilities in places like prisons. A clear plan driven forward by an operational-level Implementation Group with robust oversight and control from

a Director-level Programme Board is overseeing implementation of the 2nd wave of reforms (the capping of care costs and a new appeals process) due to take effect from April 2016.

[i] A deferred payment agreement helps a person use the value of their home to fund their care home costs.

6. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year 2014/15 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 we will monitor their implementation and operation and conduct a further annual review.

.....
Leader of the Council

.....
Chief Executive

Portfolio of evidence to support the Annual Governance Statement

3. (b)

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.
- 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.
- Making the Chief Executive (the Head of Paid Service) responsible and accountable to the Council for all aspects of operational management.
- 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.
- Make the Director of Public Health responsible for ensuring that the statutory public health functions are carried out.
- 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.
- Ensuring significant partnerships and contracts with other public bodies, voluntary and community organisations, and the private sector have clear governance accountabilities, including effective and equitable financial arrangements which are approved for example by Cabinet.
- 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)

3. (c)

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/Employee 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. There has been one formal complaint this year which was fully investigated and the Committee took no further action. The conduct process has a strong emphasis on informal resolution.

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
- 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 Audit Committee and Councillor Conduct Committee

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.

3. (d)

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

3. (e)

The Council has done this by:

- 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
- Encouraging quality mark accreditation for services
- Maintaining and developing our personal development review system
- Cascading regular information to Members and staff by paper and electronic means regarding emerging issues
- Holding a full induction and training programme for all Members to attend

3. (f)

The Council has done this by:

- Improving effective corporate consultation including maintaining effective mechanisms for ongoing engagement eg, Children in Care Council, Young Commissioners, Learning Disability Partnership Board, 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 – eg 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 communityowned action plans, participation in Partner and Communities Together (PACT) meetings
- Maintaining and reviewing an effective complaints procedure

4. Throughout 2014/15 the Council has received and considered a number of reports including: -

- (a) Changes to the Constitution April 2014
- (b) Exemptions to the contract procedure rules (January 2015)
- (c) Budget Report 2015/16 (February 2015)
- (d) Council Plan 2015/16 (February 2015)
- (e) Special urgency decisions (July 2014, October 2014)

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

- (a) Revenue Budget monitoring 2014/15 (September 2014, January 2015)
- (b) Capital monitoring 2014/15 (September 2014, January 2015)
- (c) Capital and Revenue Budget 2015/16 (December 2014)
- (d) Six monthly review of the risk register (April 2014, October 2014)
- (e) Annual Review of the Risk Management Strategy (October 2014)
- (f) Medium Term Financial Plan 2014/18 (September 2014)
- (g) Statement of Accounts 2013/2014 (July 2014)
- (h) 2013/14 Year End Performance Monitoring (July 2014)
- (i) Council Plan 2014/15 Monitoring (December 2014)

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

- (a) Whistle blowing policy (September 2014)
- (b) Internal Audit Annual Plan 2015/16 (March 2015)
- (c) Anti Money Laundering Policy (September 2014)
- (d) Corporate Fraud (July 2014, September 2014)
- (e) Statement of Accounts 2013/14 (July 2014)