



## **AUDIT COMMITTEE**

**29 JUNE 2017**

### **ANNUAL GOVERNANCE STATEMENT 2016/17**

Report from: Perry Holmes, Chief Legal Officer

#### **Summary**

This report explains the requirements for reporting and approving an Annual Governance Statement (AGS) covering the financial year 2016/17, 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 a local code of corporate governance based on CIPFA guidance at its meeting on 13 November 2008. In 2016, CIPFA and the Society of Local Authority Chief Executives (SOLACE) published a revised 'Delivering Good Governance' framework that "defines the principles that should underpin the governance of each local government organisation". A revised local code of corporate governance has been prepared based on the new 2016 framework; this is presented elsewhere on this Audit Committee Agenda and will be presented to Council for approval in due course. To ensure the Council remains in line with best practice, this Annual Governance Statement (AGS) for 2016/17 has been prepared in line with the revised code of corporate governance and the 2016 framework.

### **3. Annual Governance Review & Statement**

- 3.1. To assess compliance with the Code, the Council is required to conduct an annual review of the effectiveness of its governance framework and system of internal control. The results of this review, carried out in line with the core principles of the Code, inform the production of the Council's AGS, presented as part of the Statement of Accounts.
- 3.2. The AGS is therefore intended to be a public assurance statement representing the governance and internal control arrangements adopted by the Council. Following its approval by the Audit Committee, the AGS is required to be signed by the most senior officer and most senior Member of the authority.
- 3.3. The AGS which is at Appendix 1 to this report explains how the Council has complied with the local code of corporate governance, and also meets the requirements of Regulation 6 (1b) of the Accounts and Audit Regulations 2015 in relation to the publication of a governance statement.
- 3.4. The review of the Council's 2016/17 governance arrangements was conducted by the Chief Legal Officer in accordance with the principles adopted by the council's Code of Corporate Governance, itself a framework designed upon the guidance issued by CIPFA/SOLACE.
- 3.5. The results of the review have been considered by the Council's Corporate Management Team in advance of their endorsement of this Annual Governance Statement; assurances have been provided by members of 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.
- 3.6. The review established that the authority does have adequate governance arrangements in place; whilst no significant issues have been identified, the review has highlighted some opportunities to further develop and strengthen the Council's governance and internal control environment.

### **4. Risk management**

- 4.1. Failure to approve the AGS 2016/17 could expose the authority to the risk of receiving a qualified opinion on the 2016/17 Statement of Accounts.
- 4.2. The purpose of the governance review is to identify any potential areas of weakness or areas of further improvement, in order to minimise the risk facing the Council in these areas. Failure to take action in relation to the issues identified at section five of the AGS 2016/17 would have a negative effect on the continuous development of the governance arrangements operated by Medway Council.

### **5. Financial implications**

- 5.1. There are no financial implications.

## **6. Legal implications**

- 6.1. The Accounts and Audit Regulations 2015 place a statutory requirement on authorities to conduct a review at least once a year of the effectiveness of its system of internal control and to prepare an annual governance statement in accordance with proper practice in relation to internal control. Proper practice has been defined as that set out in 'Delivering Good Governance in Local Government', published by CIPFA/SOLACE. The review referred to in this report and the AGS have both been prepared with due consideration of this proper practice.
- 6.2. There is a statutory requirement for the AGS to accompany the Statement of Accounts There is a statutory requirement for the AGS to accompany the Statement of Accounts.

## **7. Recommendation**

- 7.1. Members are asked to note the findings of the review of the Council's governance arrangements for 2016/17.

### **Lead officer contact**

Perry Holmes, Chief Legal Officer [perry.holmes@medway.gov.uk](mailto:perry.holmes@medway.gov.uk)

### **Appendices**

Appendix 1 – Annual Governance Statement 2016/17

### **Background papers**

None



**1. Scope of responsibility**

- 1.1. 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.
- 1.2. 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.
- 1.3. In 2016, CIPFA and the Society of Local Authority Chief Executives (SOLACE) published a revised 'Delivering Good Governance' framework that "defines the principles that should underpin the governance of each local government organisation". The Council approved a local code of corporate governance based on the original guidance at its meeting on 13 November 2008. A revised local code of corporate governance has been prepared based on the new 2016 framework and this will be presented to Council for approval in due course. To ensure council remains in line with best practice, this Annual Governance Statement for 2016/17 has been prepared in line with the revised code of corporate governance and the 2016 framework.
- 1.4. Corporate governance is overseen by the Audit Committee each year when it reviews this statement, under delegation from the full Council. The operational elements of the Council's governance framework are the responsibility of the Chief Finance Officer and the Monitoring Officer within their statutory roles. Cabinet as the Executive also plays a significant role in ensuring that decision making and policy setting is undertaken appropriately.
- 1.5. This statement explains how the Council has complied with the code and also meets the requirements of Regulation 6 (1b) of the Accounts and Audit Regulations 2015 in relation to the publication of a governance statement.

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

- 2.1. 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.
- 2.2. 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

## Medway Council Annual Governance Statement 2016/17

Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

### 3. Review of effectiveness of the governance framework

3.1. Medway Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the executive managers within the council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Counter Fraud's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

3.2. In maintaining and reviewing the effectiveness of the governance framework, the review has considered the following:

- The corporate and business planning processes of the council;
- The corporate performance management framework and the corporate performance reporting processes of the council;
- Reviews carried out by Internal Audit, External Audit and other review bodies which generate reports commenting on the effectiveness of the systems of internal control employed by the council;
- The consideration of External Audit reports by the Audit Committee;
- The opinion on the overall adequacy and effectiveness of the council's overall control environment from the Head of Audit & Counter Fraud.

The detailed results of the review have been considered by the Council's Corporate Management Team in advance of their endorsement of this Annual Governance Statement; assurances have been provided by members of 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.

3.3. The following section of the statement summarises the results of this review; presenting the governance framework that has been in place at Medway Council for the year ended 31 March 2017 and up to the date of approval of this Statement.

<b>Core Principle</b>	<b>How we have complied in 2016/17</b>
Principle A: "Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law"	<p>The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in the Constitution, Contract Standing Orders and Financial Regulations; the Monitoring Officer is responsible for reviewing and updating these as required.</p> <p>Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.</p> <p>The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. The Councillor Conduct Committee is regularly</p>

## Medway Council Annual Governance Statement 2016/17

Core Principle	How we have complied in 2016/17
	<p>updated on compliance with the Code of Conduct.</p> <p>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.</p> <p>The Council seeks feedback from the public through its complaints and comments procedures, responds to the outcomes, as appropriate.</p>
<p>Principle B: “Ensuring openness and comprehensive stakeholder engagement”</p>	<p>Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.</p> <p>Unless confidential, decisions made by Council, the Cabinet or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.</p> <p>The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.</p>
<p>Principle C: “Defining outcomes in terms of sustainable economic, social, and environmental benefits.”</p>	<p>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.</p> <p>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 2016 the council reviewed the Council Plan 2016/17-2020/21, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2016 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.</p> <p>All reports to the Council or Cabinet are checked by the Chief Finance Officer (the section 151 Officer) and the Chief Legal Officer (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. Equalities as well as environmental implications are considered during the decision making process to promote fair access to services.</p> <p>All Cabinet and Council decisions are made on the basis of formal reports, which all follow a standard Council template. The template includes guidance on report writing which specifically refers to Diversity Impact Assessments and provides a link to the Council's DIA guidance which sets out how and when these should be completed. There are arrangements in place that ensure all reports for Cabinet and Council have been checked by Legal and Finance to confirm all required implications, including the requirement to complete a DIA, have been considered.</p>
<p>Principle D: “Determining the interventions necessary to</p>	<p>Decision makers receive objective analysis of a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options.</p>

## Medway Council Annual Governance Statement 2016/17

Core Principle	How we have complied in 2016/17
<p>optimise the achievement of the intended outcomes”</p>	<p>In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.</p> <p>The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans.</p>
<p>Principle E: “Developing the entity’s capacity, including the capability of its leadership and the individuals within it”</p>	<p>The corporate management structure consists of the Chief Executive, three Directors, a Deputy Director, five Assistant Directors and three Chief Officers.</p> <p>The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance and development review (PDR) process.</p> <p>The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.</p> <p>The Member development programme includes the comprehensive induction programme which is periodically supplemented by additional training.</p>
<p>Principle F: “Managing risks and performance through robust internal control and strong public financial management”</p>	<p>The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Scrutiny Committee for reviewing policy decisions.</p> <p>The Council has a risk management strategy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council’s ability to meet its objectives to deliver services to the public.</p> <p>The Chief Financial Officer (the Section 151 officer) is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters.</p> <p>The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.</p> <p>The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.</p> <p>A Medium Term Financial Plan and associated Risk Register, and plans for revenue and capital based on corporate priorities are developed, led by the Corporate Management Team, and presented for approval by Council in February each year.</p> <p>Revenue and Capital Budget Monitoring reports are presented to the</p>



## Medway Council Annual Governance Statement 2016/17

Core Principle	How we have complied in 2016/17
	Cabinet on a quarterly basis for monitoring and control purposes including the annual outturn.
Principle G: “Implementing good practices in transparency, reporting, and audit to deliver effective accountability”	<p>The Head of Audit &amp; Counter Fraud (Chief Audit Executive) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The opinion of the Head of Audit &amp; Counter Fraud over the Council’s overall control environment, delivered in the Audit &amp; Counter Fraud Annual Report 2016/17 is:</p> <p><b><i>In my capacity as Chief Audit Executive, with responsibility for the provision of internal audit services to the council, it is my opinion that Medway Council’s framework of governance, risk management and system of internal control is adequate and effective, and contributes to the proper, economic, efficient and effective use of resources in achieving the council’s objectives.</i></b></p> <p>The Council responds to the findings and recommendations of Audit &amp; Counter Fraud, External Audit, Scrutiny and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.</p>

### 4. Update on actions identified in the 2015/16 Annual Governance Statement

#### 4.1. The Annual Governance Statement for 2016/17 identified three key areas of focus:

4.1.1. (a) A continuation of the significant reductions in Government grant funding over the medium term and the ongoing demands for greater expenditure, particularly for children’s services and older people are considerable challenges. The Council has plans in place to respond to these financial tests for 2016/17 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 Cabinet chaired by the Leader of the Council will need to monitor the robustness of saving proposals contained in the budget with action needed by Corporate Management Team throughout the year as appropriate.

During 2016/17 the Council’s Cabinet met regularly throughout and received quarterly budget monitoring and forecasting updates as well as the draft budget for 2017/18. These budget reports were also presented to the Business Support Overview and Scrutiny committee. The budget for 2017/18 was agreed by Full Council in February 2017.

4.1.2. (b) The Council is exploring a number of new approaches to service delivery to compliment those already in place such as the Building Control Partnership and Medway Norse. The creation of Medway Commercial Group has seen the telehealthcare and CCTV services take a more commercial route. The Council has for some time had a commissioning team that is shared with the Clinical

## Medway Council Annual Governance Statement 2016/17

Commissioning Group and we continue to explore the benefits to be realised in health and social care through joint working. The Council is seeking to deliver many of its services through digital means and has engaged consultants to assist in setting a vision for that work. Other services are looking at the ability to increase external income as a means of countering reduced revenue budgets. These new approaches provide an organisational challenge, require appropriate governance and new skill sets and significant cultural change.

During 2016/17 the Council's Cabinet considered a number of business cases for the creation of a variety of subsidiaries within the Medway Commercial Group.

- 4.1.3. (c) Discussions about the possibilities for devolution of powers and funding from central government are taking place and pose a political and constitutional challenge as well as significant opportunities for Medway the area. As the possible approaches locally that could come forward including Medway Council emerge, careful thought will need to be given to the governance and management of those.

During 2016/17 informal discussions have taken place with neighbouring Councils, but as yet no concrete devolution proposals have crystallised.

## 5. Proposed enhancements to the Council's governance arrangements

- 5.1. The review of the effectiveness of the Council's governance framework for 2016/17 did not identify any significant governance issues. However the following areas have been identified where the Council will seek to enhance its arrangements in the coming year:
  - 5.1.1. (a) The Council has received notification of a 3 year revenue settlement from the Government and has in place robust saving plans which include significant budget reductions in the Children's & Adults directorate linked to the transformation of these two areas and significant revenue savings linked to a council wide digital transformation programme, all of which are regularly monitored at a political and officer level. It will nevertheless be important to maintain close control of in particular revenue budgets in view of national political events and the wider economic climate.
  - 5.1.2. (b) The Council is also supporting a number of transformative programmes including the Sustainability and Transformation Plan (STP) with health colleagues, a Skills and Capacity programme with the setting up of a Skills Board and a proposal to set up a housing company to bring forward the development of a number of Council owned sites for profit and to consider other property investment initiatives. The risks and rewards of these programmes will need to be carefully managed to balance the needs of the community, young people, a fledgling company and the interests the Council.

## Medway Council Annual Governance Statement 2016/17

5.1.3. (c)The Council has an ambitious range of regeneration programmes that over the next year will see significant activity. To ensure there is delivery against the various milestones and that the predicted benefits are realised there will need to be concerted and sustained management at a political and officer level.

5.2. An update on the implementation of these new enhancements will be provided in the 2017/18 Annual Governance Statement.

### 6. Conclusion

6.1. Based on the results of the review, reasonable assurance can be placed upon the adequacy and effectiveness of Medway Council's systems of internal control and governance. Although areas for further enhancement have been identified the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in all significant respects.

### Certification by the Leader of the Council

I confirm that the 2016/17 Annual Governance Statement has been considered and approved by Medway Council at the meeting of the Audit Committee on 29 June 2017:

.....

Date:

### Certification by the Chief Executive

I confirm that the 2016/17 Annual Governance Statement has been considered and endorsed by Medway Council's Corporate Management Team:

.....

Date: