

Appendix 1



Rochester Castle

H. 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.

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. This Annual Governance Statement for 2017/18 has been prepared in line with the revised code of corporate governance and the 2016 framework.

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.

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

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.

3. Review of effectiveness of the governance framework

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.

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.

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 2018 and up to the date of approval of this Statement.

Core Principle	How we have complied in 2017/18
<p>Principle A: “Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law”</p>	<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 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 and 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>

Core Principle	How we have complied in 2017/18
<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>In 2017 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 2017 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 (“DIA”) 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>

Core Principle	How we have complied in 2017/18
<p>Principle D: “Determining the interventions necessary to optimise the achievement of the intended outcomes”</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> <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 (one of whom is the Deputy Chief Executive), a Deputy Director, five Assistant Directors and two 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>

Core Principle	How we have complied in 2017/18
<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” or Cabinet is the key decision-making and monitoring committee and the various scrutiny committees 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 Strategy 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 Cabinet on a quarterly basis for monitoring and control purposes including the annual outturn.</p>

Core Principle	How we have complied in 2017/18
<p>Principle G: “Implementing good practices in transparency, reporting, and audit to deliver effective accountability”</p>	<p>The Head of Audit & Counter Fraud 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 & Counter Fraud over the Council’s overall control environment, delivered in the Audit & Counter Fraud Annual Report 2017/18 is:</p> <p>The Accounts & Audit Regulations 2015 require local authorities to ensure that they have: <i>a sound system of internal control which— (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and (c) includes effective arrangements for the management of risk.</i> The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.</p> <p>The Audit & Counter Fraud Team has carried out all internal audit work in line with the Public Sector Internal Audit Standards and in accordance with our Quality Assurance & Improvement Programme.</p> <p>In my capacity as Chief Audit Executive, with responsibility for the provision of internal audit services to the council, I am required to provide the organisation, and the Chief Executive, with a statement as to my opinion of the adequacy and effectiveness of the organisation’s risk management, control and governance processes. This opinion is intended to support the council’s annual governance statement.</p> <p>In assessing the level of assurance to be given, the following have been taken into account;</p> <ul style="list-style-type: none"> • the results of all work carried out by the Audit & Counter Fraud Shared Service for Medway from the preparation of the Annual Internal Audit Report 2016-17 in June 2017 to the date of this report, • follow-up of recommendations linked to audits from previous periods, • Significant recommendations not accepted by management or acted upon and the consequent risks, • The effects of any significant changes in the organisation’s objectives or systems, • Matters arising from previous reports to the organisation, and • The results of work performed by other assurance providers. <p>Although limited to the risk areas considered in the services and functions that have been subject to review in the year; I</p>

am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's risk management, system of internal control and governance processes.

While it has been identified that the authority has mainly established adequate internal controls within the areas subject to review during 2017-18, there are areas where compliance with existing controls should be enhanced or strengthened or where additional controls should be introduced to reduce the risk of loss to the authority. Where such findings have been made, recommendations have been made to management to improve the controls within the systems and processes they operate. Management have accepted responsibility for the implementation of these recommendations and follow up arrangements are in place to ensure that appropriate action is taken. The results of all work completed will be reported to the Audit Committee in accordance with the Audit & Counter Fraud Charter.

It is therefore 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.

The Council responds to the findings and recommendations of Audit & 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.

4. Update on actions identified in the 2016/17 Annual Governance Statement

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

- (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.

Update: close monitoring of the savings plans including those linked to transformation took place during the year 2017/18. It is anticipated that a report to Cabinet will shortly set out a modest underspend at budget outturn.

- (b) The Council is also supporting a number of transformative programmes including the Sustainability and Transformation Partnership (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.

Update: significant support at a political and officer level has been given to a set of STP Boards to ensure that Medway's interests are considered in future multi-agency planning. The Skills Board has begun to meet to focus on this key area. Medway Development Company is set up and functioning with the planning application for its first development site due in June.

- (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.

Update: political and officer oversight of the Council's regeneration programme has taken place. The Local Government Association Corporate Peer Challenge team considered the programme in the context of a wider review and commented "that the transformation which has taken place in Medway is 'truly remarkable' and 'positioning Medway as one of the most promising growth areas in the UK'."

5. Proposed enhancements to the Council's governance arrangements

The review of the effectiveness of the Council's governance framework for 2017/18 did not highlight any specific areas of concern. Where internal audit work has indicated additional controls could be in place, officers are focussed on making the necessary changes to do so.

However the following areas have been identified where the Council will seek to enhance its arrangements in the coming year:

- (a) Robust saving plans were agreed as part of this year's budget build for budget pressures identified in a range of front line services including in the Children's & Adults directorate and the Regeneration, Culture Environment and Transformation directorate. Regular monitoring and scrutiny at a political and officer level will be needed to deliver those savings. As the Council heads into an election year, the importance of strong budgetary control and appropriate medium and longer term planning will be focussed on to a greater extent than normal.
- (b) The Council has an ambitious Transformation Programme which will change the way the Council provides services with amongst other changes, a shift to digital channels. The successful and timely implementation of this programme is key to the Council's future financial and organisational planning.
- (c) There is also a significant Adult Social Care transformation programme that builds on the early success of the "three conversations" model, which supports frontline staff to have 3 precise, specific conversations with people as a way of discovering a person's needs and

finding ways to enable them to be independent and safe. This programme will need careful political oversight and officer management to succeed.

(d) The Council has embarked on a number of alternative delivery models including Medway Norse and Medway Commercial Group. 2017 saw the birth of two more models, Medway Development Company Limited (to manage delivery of a programme of residential housing) and Medway Growth (for a separate residential housing programme). The governance and ethical considerations that this new way of providing services and the competing interests that this involves, is an area of review in this coming year.

(e) The Sustainability and Transformation Partnership creates the opportunity for new models of health and social care delivery in Medway and Kent. The Council is a significant partner in this ambitious programme of change. This is an area of review in the coming year as senior politicians and officers support an array of work to define actions and outcomes and to ensure Medway's interests are protected and enhanced.

An update on the implementation of these areas of review will be provided in the 2018/19 Annual Governance Statement.

6. Conclusion

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 2017/18 Annual Governance Statement has been considered and approved by Medway Council at the meeting of the Audit Committee on 27 June 2018:

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Date:

Certification by the Chief Executive

I confirm that the 2017/18 Annual Governance Statement has been considered and endorsed by Medway Council's Corporate Management Team:

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Date: