

Agenda Item No:

Report To: AUDIT COMMITTEE

Date: 27 June 2011

Report Title: 2010/2011 Annual Governance Statement

Report Author: Paul Naylor, Deputy Chief Executive



Summary:

Each year the council must produce an Annual Governance Statement that summarises the approach to governance, demonstrates how its approach fulfils the principles for good corporate governance in the public sector, and draws a conclusion about the effectiveness of its governance arrangements. The attached statement is submitted for the Audit Committee to approve on behalf of the council. The draft has been submitted to the chairs of relevant council committees and groups, and the Leader. Any further comments on the draft will be reported to the meeting.

The report highlights just one area of significance for ongoing review; this concerns the emerging new approaches to local partnership working and the need to ensure that good principles of corporate governance are adopted in the design of these arrangements.

The Portfolio Holder (Councillor Robert Taylor) endorses the summary of our governance arrangements and supports the conclusions.

Key Decision: NO

Affected Wards: None in particular

Recommendations: The Audit Committee is asked to consider and approve the 2010/2011 Annual Governance Statement.

Policy Overview: Good standards of corporate governance are essential in all organisations. The council's arrangements are longstanding, well-developed and continue to be effective, but adaptive to change in local circumstances. An example of this was the new direction set by the work over the past year in relation to the 5 year Business Plan, and emerging arrangements for a new localist approach.

Financial Implications:	None
Equalities Impact Assessment	Not applicable for this report
Other Material Implications:	None
Background Papers:	The minutes of various meetings of the 'governance' committees over the course of 2010/2011.
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Report Title: 2010/2011 Annual Governance Statement

Scope of Responsibility

1. Ashford Borough Council is responsible for ensuring that –
 - Its business and decision-making follows the law and proper standards.
 - Public money is safeguarded and properly accounted for and used economically, efficiently and effectively.
2. The council has a legal duty under the Local Government Act 1999 to secure continuous improvement in the way in which its roles are exercised, having regard to economy, efficiency and effectiveness.
3. In fulfilling these responsibilities the council must put in place proper arrangements to govern its affairs and promote the effective exercise of its roles, including arrangements to manage risk.
4. The council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA¹ and SOLACE² guidance '*Delivering Good Governance in Local Government*'. Copies of the code and the guidance are available on our web site or can be obtained by contacting Paul Naylor, Deputy Chief Executive (see contact details at the end of this document).
5. This annual governance statement summarises the council's governance arrangements and explains how it has complied with the local code. It also meets the requirements of Regulation 4 (2) of the Accounts and Audit Regulations 2003 (as amended) about publishing a statement on internal control.

The Purpose of the Governance Framework

6. Our governance framework is made up of:
 - the cultural values, systems and processes by which the council's work is directed and controlled
 - the activities through which the council engages with, leads and accounts to its community.

¹ CIPFA – the Chartered Institute of Public Finance and Accountancy

² SOLACE – the Society of Local Authority Chief Executives

7. Part of this framework allows councillors to check progress with achieving strategic objectives (as stated in our Summary Business Plan³) and to consider whether it has delivered suitable and cost-effective services.
8. Internal controls form a significant part of the framework and help to manage accountabilities and risk to a reasonable level. These controls cannot remove risk entirely, but are aimed at providing high-levels of safeguard and assurance. Our approach to risk management provides a means to identify and prioritise risk and the means to assess the likelihood of occurrence and potential impacts should they occur.
9. The governance framework is a permanent feature of the council's work and therefore was in place throughout the year ended 31st March 2011. Some changes to our constitution were made following forming the new council in May 2011. Revisions will, therefore, be in place at the time members approve the 2010/2011 financial statements in September 2011.

The Governance Framework

10. CIPFA and SOLACE together in 2007 produced their framework document '*delivering good governance in local government*'. Building on the Cadbury⁴ and Nolan⁵ principles the CIPFA/SOLACE framework identifies six core principles for good corporate governance.
11. This statement takes each of the principles in turn and describes the council's arrangements and developments over the past year that are of particular relevance to assessing the adequacy of our governance arrangements.

***Principle A –
Focusing on the purpose of the Council and on outcomes for the
community***

- A1 In recent years annual governance statements have highlighted a need to reconsider the council's objectives and direction because of prevailing circumstances. Beginning in early 2010 a total review of the council's purpose, direction and priorities began. Significantly this review expected challenging longer term financial prospects for local authorities following the recession and a change in government. The Coalition Government's Budget Reduction Plan has since set the scene for large cuts in public

³ Summary 5 Year Business Plan, Executive Committee and Full Council approved, February 2011

⁴ Cadbury Report, 'Report of the committee on the financial aspects of corporate governance' 1992

⁵ Nolan Report, 'Standards in Public Life: First Report of the Committee on Standards in Public Life (1995)

spending including grants to local authorities. Our new Business Plan recognises this and sets a clear vision for what the council is aiming to achieve. The following extract summarises the council's purpose:

Extract from Summary Business Plan (Council approved February 2011)

“What Are We Aiming For?”

“We are best placed within Kent and the South-East in many ways. We intend to use this advantage to become the council that local people expect and deserve; a council which is responsible and responsive; willing to change to deliver services which local people have prioritised. We want to be a council recognised for providing decent, cost-effective services. We want to be proud of our enterprise, value and customer service. We know that to deliver these commitments we need a clear sense of purpose and direction that will keep us on track to deliver this business plan over the next five years and beyond. We will work hard with our staff teams and council members over the remaining months of this financial year to carry out the necessary changes to our business, and to explain our expectations and ambitions now and for the future.”

- A2 Following extensive public consultation about priority themes and specific objectives, members approved the summary business plan alongside the annual budget for 2011/2012. Our business plan and budgets are fully aligned, the latter reflecting budget cuts resulting from public consultation and members' evaluation and decisions. Priority themes are stated and over the course of 2011 decisions will be taken about specific objectives and projects related to these. The priorities are shown below.

Recycling and the Environment

Activities for young people

Housing and growth

Best services resources allow

- A3 Running throughout all themes is a new and strong commitment to **Localism**.
- A4 The past year was a year of transition; therefore a year where new priorities were created expecting tough times ahead. The emphasis on localism has also dictated reconsideration of our local partnership work, and of our approach to housing and jobs growth and related community infrastructure provision.

- A5 As a result, the decision was taken to wind up the former Ashford (local strategic) Partnership (previously responsible for the Community Strategy). In the coming months members will consider creating a new partnership, the Ashford Locality Board. This new board will focus on supporting and delivering our and partners' collective priorities, and will support the wider aims of the new Kent Forum with its county-wide themed ambitions.
- A6 As centrally imposed housing growth targets for the longer term no longer apply, the transition involves a substantial review of housing and jobs growth for the borough. Therefore, the council has decided to start an early review of the 2008 Core Strategy (the local development framework). A strong commitment is made to wide-scale community consultation about future growth. Related to this transition and the need to take stock of the growth plans, the council and its 'Ashford Future' partners decided to wind down the Ashford Future Company Ltd. Over the past three years the company was responsible for co-ordinating and monitoring the delivery of the growth area programme.
- A7 In summary, therefore, 2010/2011 was a year that has seen a new and clear direction develop, including full integration of business, service and financial planning. It was also the start of a complete refresh of our growth needs and partnership working objectives and structures. Working alongside the Business Plan will be redesigned performance management reporting arrangements that will help members, the management team, partners and the public to have a clear understanding of progress.
- A8 In taking the council's localism aims forward its commitment to consultation and working with local communities will build on the council's engagement work. A review of our general communications arrangements was conducted in 2010 resulting in changes starting to be made in 2011. Further development of our approaches to consultation and communication will continue and will build on the successful arrangements already in place (for example our youth, parishes, tenants, and voluntary sector and neighbourhoods forums).

Principle B – Members and Officers work together to achieve a common purpose with clearly defined roles

- B1 The council's constitution states the roles and responsibilities of members and senior officers. It covers protocols for members and officers' conduct and contains many procedural rules, including procedures for conducting meetings, public speaking and representation, and financial and contract rules.

- B2 It includes the Terms of Reference for the Cabinet (formerly the Executive until May 2011) and Portfolio Holders, and for the Council as a whole and its various committees.
- B3 Over the coming months some further change to the constitution is expected. Proposals for amendments are required to be considered by the Selection and Constitution Review Committee.
- B4 Policy issues are usually considered for recommendation by the Cabinet to Full Council in public meetings based on reports available to members of the public. The cabinet decides collectively as a committee. Constitutionally therefore, portfolio holders act to support their responsibilities generally without individual decision-making ability outside the Cabinet (see B7 also). A Forward Plan containing details of key decisions to be made by the Cabinet is published monthly. The Officers of the Authority work with elected Members to deliver policies as developed and approved within the Constitutional Framework of the decision making process.
- B5 Further details on the roles and responsibilities of those Committees engaged with governance are contained in the 'Review of Effectiveness' section of the Annual Governance Statement.
- B6 Officer delegations and accountabilities are laid down in the constitution.
- B7 Officers are appointed with clear job descriptions and areas of responsibility, adopting statutory and professional standards where necessary. The constitution provides officers with delegations to make certain decisions to aid efficient and effective operation of the council's business. In February 2011 delegations were extended to provide Heads of Service, or Portfolio Holders in consultation with Heads of Service, with the ability to use financial reserves. This delegation was designed to more efficiently address smaller matters of urgency or of urgent community concern without needing the Management Team or Cabinet approval.

Principle C – promoting values for the authority and showing the values of good governance through upholding high standards of conduct and behaviour

- C1 Under the former 'use of resources' external audit assessment (withdrawn by Government in 2010) the council was recognised by the Audit Commission as having good governance arrangements. Later reporting by our external auditors continues to underline our governance arrangements as an area of strength.

- C2 Our constitution, therefore, sets down a well-regarded formal governance framework for directing members and officers conduct on the council's business. These protocols also address the need to declare and disclose relevant interests that members and officers may have which may or may be perceived to impact on council decision making.
- C3 The council's Standards Committee, chaired by an independent member of the public, oversees conduct issues.
- C4 The council's Audit Committee is required to assess and provide assurance about the adequacy of governance arrangements, in particular the risk management framework and the associated internal control environment. The committee's role extends to providing scrutiny of the Authority's financial statements and its non-financial performance. A particular focus for the committee is the council's exposure to risks and our arrangements for ensuring the control environment is not weakened.
- C5 The council has adopted a confidential Whistle-blowing Policy which is incorporated within the conditions of service for officers and is reviewed yearly. This is part of the council's commitment to uphold good standards and promote a culture of honesty and openness. There were no incidents for reporting during 2010/2011.
- C6 Complementing our commitment to openness and high standards of public service is our complaints procedure. Our arrangements allow anyone to make a complaint about the council and the services it provides. New complaints procedures were adopted from 2009. Reports to the Overview and Scrutiny Committee from the Customer Services Manager will summarise complaints issues and matters of learning arising.

Principle D – taking informed and transparent decisions which are subject to effective scrutiny and risk management

- D1 Cabinet meetings and other decision-making committees are held in public in an open style with members of the public able to pose questions or present petitions. Final decisions are needed from the full council where committees can only make a recommendation; this is usually where an issue is outside approved policy, is new policy, or outside the limits of the approved budget.
- D2 All decisions taken by members across the full democratic process are minuted and published. There is a presumption that information and decisions are taken in public, but occasionally (under access to information regulations) some information is regarded as 'exempt' and not published. However, the council aims as far as is possible to keep this type of information and decision to the minimum.

- D3 The Council runs an Overview and Scrutiny Committee. Its role is to examine and review existing policy and operational methods, as well as providing the ability for members to 'call in' decisions of the Cabinet for review before any actions are carried out. The Committee produces an annual report to review its work and aid judgements about its effectiveness.
- D4 A public participation scheme is maintained under the statutory requirements, details of which are held within the constitution. This scheme was reviewed during 2010/2011 because of statutory changes.
- D5 During 2010/2011 a specific 'transparency' policy was approved. This responded to the Government's needs for greater publication of information as well as the council's own wish to extend the information publicly available. Our website now, therefore, contains a specific 'Transparency' site. The council will keep under review the type of information to be published in this way.
- D6 Freedom of Information Act questions are all dealt with under established protocols.
- D7 Risk awareness and management is a part of the council's work, both for its members and officers. Our approach involves the following:
- preparation and maintenance of service and strategic risk registers
 - periodic reviews during a year with annual risk assessments
 - guidance and training on risk management available to members and staff
 - involvement by members in the risk management process, principally through the Audit, and Overview and Scrutiny Committees.
 - ensuring that risk implications feature in all committee reports and decision-making
- D8 However, and as the Head of Internal Audit advises in his Internal Audit Annual Report 2010/2011, there is a need to refresh the approach and ensure that work on identifying and managing risk at strategic (business plan) level follows through to services. Accordingly, this is an area of attention during 2011/2012, which will be led by the internal audit team.
- D9 During 2010/2011 with the work to prepare a new Business Plan, much of the routine around new service and risk assessment related to key corporate priorities was postponed until completion of the Plan and the first tranche of project objectives. This work should be completed in the summer of 2011 and our aim is to link this to a new risk and

performance management reporting arrangement. This will therefore come forward to the Cabinet, Audit, and Overview and Scrutiny Committees in the autumn.

- D10 Specifically on financial management and risk the Council has kept under review its financial rules as set out in the Constitution and within Financial Regulations. At officer level this is overseen by the 'Chief Finance Officer' under Section 151 of the Local Government Act 1972 (the Deputy Chief Executive). An associated responsibility is to assess longer term financial risk. Here the council receives advice following reviews of its medium term financial forecasts. These are updated periodically each year and support production and review of the Business Plan and resulting annual budgets. The CFO is under a statutory duty to advise on financial risk associated with the budget. Members receive this advice, with the outcome of reviews by the Overview and Scrutiny Committee as part of each year's budget decision-making.
- D11 The Overview and Scrutiny Committee, through its Budget Task Group will follow up risk assessments during each year, using the regular budget monitoring and performance management reports to the Cabinet as primary sources of information.
- D12 All committee reports include reference to the potential impact on the Council's priorities and aims, and address financial, risk, equalities and other implications. Health and safety issues and risks are directed by policies and procedures approved and updated by the council.

Principle E – developing the ability and capacity of members and officers to be effective

- E1 The council is committed to identifying and fulfilling the learning and development needs of members and officers. In respect of its staff the council was successful in 2011 in keeping its full Investors in People accreditation.
- E2 Members' training needs are considered through a Member Training Panel, for which a budget is available.
- E3 Inductions are provided for new members and routinely for new staff.
- E4 Officers' training needs are determined through a combination of staff performance development discussions and assessments by the Management Team of needs the Head of Personnel and Development recommends to address more general needs.

- E5 A central training budget for staff needs is available and a programme then set up. During 2010/2011 new automated appraisal methods were developed linked to assessments of behavioural and technical competencies, as part of the council's wider performance and talent management framework.

Principle F – engaging with local people and other stakeholders to ensure robust public accountability

- F1 2010/2011 was a year of transition. It saw extensive engagement with residents, community groups and partners on a scale not carried out in recent years. All of this work led to creating our summary level business plan and its associated priority themes. Work will continue with local people and residents to further develop the detailed content of the Business Plan.
- F2 A new local partnership will be set up under the banner of the Ashford Locality Board. Therefore the previous Community Strategy will be replaced by new objectives, but which can be expected to complement the aims of the council's Business Plan, other partners' priorities as well as the county-wide ambitions of the Kent Forum.
- F3 In January 2011, following a policy review a new set of consultation and communications was agreed by the former Executive Committee. This included a commitment to:
- set up a citizens panel
 - creating a central engagement website portal
 - develop guidelines and protocols for 'good consultation' practices
 - develop a deeper understanding of how to engage 'hard to reach' groups
 - replace Ashford Voice with an on-line e-magazine
 - promote council information through Parish Councils, Parish Magazines and Community Forums
 - create a succinct annual report to review key council achievements and activities over the preceding year linked to the Business Plan
- F4 Earlier in July 2010, the council agreed, following review by members, to end the practice of holding an annual State of the Borough Debate in favour of a broader set of community engagement methods.

Is the framework effective?

12. Ashford Borough Council has responsibility for conducting, at least yearly, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of the executive managers within the authority who have responsibility for developing and upholding the governance environment. It is further informed by the Head of Internal Audit's annual report, of reports from our external auditors and, where applicable from other review agencies. Effectiveness is also informed by the work and findings of the 'governance' committees (Standards, Audit, and Overview and Scrutiny Committees).

External audit

13. As previously mentioned our external auditors view the council's governance arrangements as an area of strength with no adverse comments arising during 2010/2011. Following a government decision the delivery of external audit will change in two years' time. Our external auditors have kept the council's Audit Committee informed of the progress. The council has also responded to the government's consultation on this topic.

Internal audit

14. Internal audit is responsible for checking the quality and effectiveness of the system of governance and internal control, through a risk-based workplan model. The reporting arrangements for Internal Audit require a report of each audit to the relevant Head of Service with a copy to the Chief Executive and Deputy Chief Executive. The report includes recommendations for improvements to internal controls and these are detailed within an Action Plan for agreement or rejection by Heads of Service. The Internal Audit Annual Report contains a statement/ judgement on the overall levels of internal control (a view based on the relative significance of the systems reviewed during the year). This year's report once again draws the conclusion that internal controls, overall, generally provide a substantial level of assurance.

It is the opinion of the Head of Internal Audit that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council. The evidence to support the opinion is contained within this report.

Internal Audit Annual Report 2010/2011 – Audit Committee 27 June 2011

15. Our internal audit work was again strengthened during 2010/2011 through setting up the four-council MidKent Audit Partnership. This arrangement provided further access to audit skills and the ability to strengthen audit generally, as well as a further opportunity to share in combined learning. The four council's audit committees took part in a review of their effectiveness carried out by the Improvement and Development Agency (now part of the Local Government Association group). The findings of that review were encouraging and were considered by the Audit Committee. The new Audit Committee will consider the various suggestions to further improve the effectiveness of the committee's role.

Overview and Scrutiny Committee

16. This Committee provides capability for a scrutiny role over decisions made by the Executive as well as providing public reviews of issues or council services that affect local people. The Committee produces and publishes an Annual Report, which summarises the work over the previous year. This report is also considered by the Cabinet. The 2010/2011 report is to be considered by the Committee in June. Particular highlights were the work on reviewing the council's 2011/2012 budget, and the mayoralty review, with the recommendations on both reviews accepted by the former Executive Committee.

Standards Committee

17. This Committee has Terms of Reference which comply with the guidance set out by the Standards Board for England, including the statutory roles about the local Code of Conduct for members. The full committee met on one occasion during 2010/2011 and is next due to meet at the end of June, when the committee will consider and adopt an Annual Report, prepared by the council's Monitoring Officer. The committee's Assessment Panel met on two occasions to consider exempt local conduct matters reported by the Monitoring Officer.
18. Usually, the annual report summarises the activity of the Committee and that of the Monitoring Officer, given his responsibilities for dealing with local conduct complaints, and his team's responsibility for handling Ombudsman's complaints about the council. The annual report will show an increase in complaints to the Ombudsman over the previous year, though there were no findings of maladministration. The report will summarise other conduct issues considered by the Monitoring Officer and the committee and its 'sub-committees'.

Audit Committee

19. This committee is responsible for overseeing and reviewing governance issues related to internal controls, and financial and risk management

arrangements. The committee considers and approves the annual accounts on behalf of the council, and adopts the Annual Governance Statement. The committee is the principal forum for consideration of our external auditor's reports. During 2010/2011 the committee met on six occasions; its work included:

- consideration of the Annual Internal Audit report and reviews of other internal audit work (including the Audit Commission's triennial review of internal audit in 2009) concluding that a substantial level of internal control was present within the council during 2009/2010
- rigorous consideration and approval of the 2009/10 Statement of Accounts
- approval of the 2009/2010 benefit fraud annual report
- reviews of corporate performance, and risk management (with a particular emphasis on the local economy)
- consideration of a peer review report by the Local Government Improvement & Development Agency on the effectiveness of the audit committee, and agreement of actions for development of the committee
- a strategic risk assessment about the Ashford's Future Company arrangements
- consideration of a preliminary response to the CLG consultation about the future of external audit and audit committees

20. Before most of its meetings committee members and other members continued to receive informal briefings on topical issues.

Selection & Constitutional Review Committee

21. This committee is responsible for reviewing and considering amendments to the constitution, and considers the representation for committees and outside bodies. The committee met on ten occasions during 2010/2011 and among its decisions were the following:

- new terms of reference were agreed to enable forming a Grants Gateway Panel
- the adoption of a mechanism to allow for members' 'Participative Groups' to be formed

- approved the constitution be amended to reflect the new-style Leader and Cabinet model under the Local Government and Public Involvement in Health Act 2007
- approved an amended Petition Scheme
- approved amendments to the portfolios for the “Leader” and “Community and Communications” (for 2010/2011)
- approved the Audit Committee may if it wishes appoint one or more co-opted non-voting independent (non-elected) members
- approved the extension to 1 May 2012 of the terms of appointment of independent (non-elected) members of the Standards Committee and that consideration be given to staggering the expiration of appointments

Community Partnership Group

22. This group reviews the progress on partnership arrangements. Specifically the Group inputs to reviews of the effectiveness of the Local Strategic Partnership, the Crime and Disorder Reduction Partnership, the Community Safety Strategy, the Council’s role in the Ashford Future partnership, and pan-Kent public sector partnership arrangements. The Group met on three occasions during the year. It considered progress with the Ashford Future partnership’s works programme, and a draft of the Local Investment Plan (a multipartnership economic development vision statement) prepared under requirements of the previous government. As the Coalition Government’s policy and financial changes began to take effect our partnership arrangements have taken a new focus. As a result the Ashford Future Company was wound down as part of the process of the council and its partner organisations ‘taking stock’ of the position and agreeing the direction for the future.

Policy Advisory Group

23. This group provides the space for new policy discussion to take place with members. Outcomes from the group are incorporated into reports and recommendations to the Cabinet. During 2010/2011 the group met on ten occasions to consider policy proposals across topics including:
- Waste management (the early consideration of future options)
 - Community engagement (new arrangements)
 - Localism (a statement of intent, including the need for community governance reviews)

- The five-year business plan, including the medium term financial forecast
 - Carbon management plan and a climate change policy and position statement
 - The longer term future of open spaces management, including possible community management models
24. Some of the group’s recommendations were considered by the Executive during the year, others will be considered by the Cabinet over the coming weeks.

Management Team

25. The Management Team works to provide collective input to the strategic direction for the council and its internal governance arrangements, as well as its operational management. It works as a senior officer forum for participative decision-making on matters of process and internal management. The management team had full input to the work of committees and groups.

Conclusion

26. Governance arrangements continue to be strong and are under regular review. 2010/2011 saw some fundamental development, particularly the review of priorities for the council, the ‘taking stock’ of growth plans, and the emerging plans for a new approach to localism. It is considered the governance framework remains effective and responsive to change and adaptation as circumstances dictate.
27. Only two significant areas of governance are highlighted as warranting further attention. The first concerns the development of new approaches to partnership working and arrangements to put into practice the council’s approach to localism. These approaches will inevitably raise matters of accountability and governance. In the interests of good governance and consistency it is recommended the Audit Committee should perform an important role to provide assurance about future arrangement. The second concerns the need to refresh risk management.

Signed

Leader of the Council

Chief Executive

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