

Agenda Item No: 4

Report To: **2011/2012 ANNUAL GOVERNANCE STATEMENT
(UPDATED INCLUDING SUPPLEMENTARY
STATEMENT ON FINANCIAL MANAGEMENT
ARRANGEMENTS)**



Date: **AUDIT COMMITTEE**

Report Title: **27 SEPTEMBER 2012**

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Summary:	This report aims to elaborate on the current contents of the Annual Governance Statement; specifically in relation to the role of the Chief Finance Officer in the wider governance of finance issues.
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Key Decision: NO

Affected Wards: N/A

Recommendations: **The Audit Committee is asked to approve the updated Annual Governance Statement.**

Risk Assessment N/A as only amendments

Equalities Impact Assessment N/A as only amendments

Background Papers: Annual Governance Statement June 2012 – Audit Committee

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**Report Title: 2011/2012 Annual Governance Statement
(updated including supplementary statement on
financial management arrangements)**

Background

1. Ashford Borough Council's Annual Governance Statement was submitted to the Audit Committee in June 2012. Subsequent discussions with the council's external auditors highlighted the need for further formal assurance in the Annual Governance Statement and Statement of Accounts regarding the council's compliance with those financial management requirements as set out in the 2007 CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* and the 2010 CIPFA *statement on the role of the Chief Financial Officer in local government*.
2. This statement aims to elaborate on the current contents of the Annual Governance Statement; specifically in relation to the aforementioned role of the Chief Finance Officer in the wider governance of finance issues.

Summary of requirements in the CIPFA Statement

3. CIPFA's *Statement on the role of the Chief Financial Officer (CFO) in local government* describes the role and responsibilities of the CFO. It builds heavily on CIPFA's similar statement regarding public services and transposes those principles to the local government sector.
4. The statement sets out five principles that define and govern the core activities and behaviours that should be espoused in the role of CFO and the governance requirements need to support them. The CFO in local government:
 - a) is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.
 - b) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risk are fully considered, and alignment with the organisation's financial strategy.
 - c) must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

 - d) must lead and direct a finance function that is resourced to be fit for purpose.
 - e) must be professionally qualified and suitably experienced.

Ashford Borough Council's compliance

5. None of these requirements are especially new or have thrown up any material inconsistencies with the approach taken at Ashford Borough Council. In practice, many of these aspects are assisted by, or delegated to, colleagues within corporate policy, finance and accountancy, and indeed through the shared responsibility of Management Team. However, the CFO retains overall oversight, control and responsibility for these requirements.
6. An amended Annual Governance Statement is presented at **Appendix A** (amended text highlighted in bold and italics) to reflect the additional assurance requirements set out above and in the CIPFA code and this has been discussed with the council's external auditor who is satisfied with these amendments.

**ANNUAL GOVERNANCE STATEMENT
2011/12**

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*'.
5. This statement summarises the council's governance arrangements and explains how these may have varied over the past financial year and how, therefore, the council 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 a permanent feature of the council's work and 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.
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. Our approach to risk management was one area for review during 2011/2012 with good progress towards updating and further strengthening of arrangements made.

¹ CIPFA – the Chartered Institute of Public Finance and Accountancy

² SOLACE – the Society of Local Authority Chief Executives

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

The Governance Framework

9. 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.
10. ***To support this overarching framework, CIPFA's subsequent statement on the role of the Chief Financial Officer (CFO) in local government sets out five principles that define and govern the core activities and behaviours that should be espoused in the role of CFO and the governance requirements need to support them. The CFO in local government -***
- a) ***is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.***
 - b) ***must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risk are fully considered, and alignment with the organisation's financial strategy.***
 - c) ***must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.***
- To deliver these responsibilities the CFO –***
- d) ***must lead and direct a finance function that is resourced to be fit for purpose.***
 - e) ***must be professionally qualified and suitably experienced.***
11. This statement takes each of the principles ***from the 2007 framework document*** 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 Following a comprehensive public consultation in 2010 and 2011 the council's priorities for service development and budget plan were set for a five-year period. Subsequently, and following the elections in May 2011 the new cabinet adopted a longer term framework (Ashford 2030)⁶ with several strategic aims as direction for the council's work, including its work with the community and partner organisations. The framework adopted the five-year business plan.

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)

⁶ 'Ashford 2030 – A framework', adopted by Cabinet 8 December 2011

- A2 Both the 2030 framework and the five-year business plan contain priorities. These act as important focus for members and officers work, and for managing performance management and reporting arrangements, which are a most important part of governance.
- A3 Our performance management arrangements were overhauled during 2011, and converted from a previous focus on many detailed performance indicators to reporting on progress with the important project priorities within the business plan. The process also reports on important service performance matters, and the local economy. Reports are produced quarterly for the Cabinet and the Overview and Scrutiny Committee.
- A3 Running throughout all themes is a strong commitment to **Localism**. Over the past year work focused on new policy development, working to develop localism arrangements with parish councils and other representative groups, and ensuring the council had suitable arrangements in place because of the implications of parts of the Localism Act.
- A4 As reported last year the council agreed, with its principal partners and stakeholders, to consider creating a new strategic Locality Board to replace the former local strategic partnership. This led to the Ashford Locality Board with a new strategic board (made up of the Cabinet plus representatives of several partner organisations and stakeholders), with the purpose to establish and deliver partners' collective priorities. The Locality Board will complement and be a delivery arm of the cabinet's 2030 framework. Also created during 2011, was the new Kent Forum. This is a pan-sector county-wide forum of leaders and senior management (chaired by the leader of the county council). It works to co-ordinate strategic activity across Kent councils and the wider public sector, and complement the work of locality boards.
- A6 Finally, on direction and during 2011/2012, the council further developed its commitment to review its core (local plan) strategy, first adopted in 2008 and heavily influenced then by central government housing and jobs growth targets. This is a major policy issue for the council and the borough (replacing previous 'local plans') as it sets the framework for local spatial planning and a vision for how the borough and places within it should develop. Since the coalition government's abolition of top-down regional housing targets, the previous prescription surrounding core strategies was removed. Therefore, and following much local need, the council has started the preparatory work to review this major policy which, when complete in 2014, will set a new and suitable scene for spatial planning and community development over the longer term.
- A7 In summary, therefore, 2011/2012 was a year in which strong commitment and progress was made to deliver new commitments and priorities on a wide range of fronts.

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

- B1 Working together, in a local authority context, to achieve the common purpose as set by the means explained above, needs arrangements that provide for accountability, representation and transparency. These are matters the council's constitution is designed for.
- B2. Through regular reviews our constitution has evolved and adapted to changing circumstances. It 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.
- B3 It includes the Terms of Reference for the Cabinet and Portfolio Holders, and for the Council as a whole and its various committees.
- B4 Amendments must be considered by the Selection and Constitution Review Committee. One important and significant change that came into effect after the May 2011 local elections was a decision of the council in December 2010. That decision was to elect a leader, with the leader having the ability to appoint his own deputy leader and portfolio holders for the administrative term (four years). Previously, appointing the leader and Cabinet members/portfolio responsibilities was decided each year by the full council. This decision was under procedures contained in the Local Government and Public Involvement in Health Act 2007.
- B5 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. Occasionally, some matters are considered as 'exempt' from public access, for reasons defined in law, though the council tries to minimise the information restricted in this way.
- B6 The cabinet decides matters collectively as a committee. Constitutionally, portfolio holders act to support their responsibilities without individual decision-making ability outside the Cabinet. A Forward Plan containing details of 'key decisions'⁷ to be made by the Cabinet is published monthly. The Officers of the council work with elected Members to deliver policies as developed and approved within the constitutional framework of decision-making.
- B5 Further details on the roles and responsibilities of those Committees engaged with governance are contained in the 'Review of Effectiveness' section of this statement.
- B6 Arrangements for officers' delegations and accountabilities are set down in the Constitution.

⁷ Key Decisions - A decision made by the council's cabinet that involves significant amounts of money to be spent or saved (the limit is at the discretion of the council, and currently is £50,000) or is a material decision involving more than one ward in the authority. The cabinet must announce its plan for key decisions in advance and in public (through a Forward Plan).

- B7 Officers are appointed to approved job descriptions and areas of responsibility, adopting statutory and professional standards where necessary. The Constitution provides officers with delegations to aid efficient and effective running of the council's business.

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

- C1 The Constitution summarised above 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 felt to impact on council decision making. Statutory amendments for declaring interests are soon to come in to force, and thus later this year new guidance will be issued for members.
- C2 The council has designated its Deputy Chief Executive as the statutory CFO, operating under the guidance of CIPFA's statement on the role of the Chief Financial Officer (CFO) in local government, and other relevant legislation. The role of the CFO is guided by the five principles set out in this statement, and the council is confident that the CFO – In conjunction with other relevant officers – offers compliance with these principles.***
- C3 The council continued to operate a Standards Committee throughout the past year, chaired by an independent non-elected person that oversees conduct issues with the council's Monitoring Officer (a statutory role for a council officer). Statutory arrangements are changing in 2012, and provide for some degree of local discretion over the design of arrangements. The implications of this legislative change are being discussed with members, including the current Standards Committee, with new procedures to be in place later in 2012.
- C4 The council's Audit Committee assesses and provides assurance about the adequacy of governance arrangements. The committee has a particular focus on risk management and the associated internal control environment. The committee's role extends to providing scrutiny of the Authority's financial statements and its performance management. This point is also covered at D7 below.
- C5 As part of the council's aims to uphold high standards of integrity it continues to adopt a confidential 'whistle-blowing' policy and reporting arrangements. These are incorporated within the conditions of service for officers, and reviewed yearly. There were no incidents for reporting during 2011/2012.
- C6 Complementing our commitment to openness and high standards of public service is our public complaints procedure. Our arrangements allow anyone to make a complaint about the council and the services it provides. Members of the public also have a legal right of recourse to the local government ombudsman if they remain dissatisfied. Reports to the Management Team summarise complaints issues and matters of learning arising. A summary of ombudsman reports for the year is included in an annual report to the Standards Committee.

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 on matters 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 member decisions across the formal and democratic decision-making process are minuted and published under statutory requirements. 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 in place under the statutory requirements, details of which are held within the constitution. This scheme was reviewed during 2010/2011 because of statutory changes.
- D5 The council continued its commitment to transparency and going beyond the minimum legislative requirements where suitable. Wherever possible, information is made readily available to the public through the 'transparency' section of the council's website.
- D6 Freedom of Information Act enquiries are all dealt with under fixed protocols. The protocols were audited and results considered by the Overview and Scrutiny Committee.
- D7 Risk awareness and management is a part of the council's work, for both its members and officers. The past year has seen a thorough review of the approach and a new risk management framework, which is informed by the new priorities set in the business plan, is to be considered by the Audit Committee. The approach involves:
- 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
 - involving 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 Specifically on financial management the annual budget report provides an opportunity to review its financial rules. At officer level this is overseen by the 'Chief Finance Officer (CFO) ' under Section 151 of the Local Government Act 1972 (the Deputy Chief Executive). The CFO is under a statutory duty to advise on financial risk associated with the budget. Members receive this advice as part of the annual budget report, with the outcome of a budget risk review carried out by the Overview and Scrutiny Committee.
- D9 The Overview and Scrutiny Committee will follow up risk assessments during each year as it considers proper, using the regular budget monitoring and performance management reports to the cabinet as primary sources of information.
- D10 All committee reports include reference to the potential impact on the Council's priorities and aims, and address financial, risk, equalities and other implications.

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. For its staff management the council has Investors in People accreditation.
- E2 Members' training needs are considered through a Member Training Panel.
- E3 Inductions and specific topic briefings are provided for new and existing members, and routinely for new staff. Members' knowledge and capacity is also developed through the work of informal topic specific task groups that help to shape recommendations for cabinet to consider. Use is also made of special briefings, usually prior to a formal committee, to provide opportunities for members to be informed and kept up-to-date with new legislation and important local issues and initiatives.
- E4 Officers' training needs are determined through a combination of staff performance development discussions, and assessments by the Management Team of corporate needs recommended by the Head of Personnel and Development.
- E5 A central training budget for staff needs is available and a programme then set up. After some early delay a new automated appraisal method was fully completed, linking assessments of behavioural and technical competencies to performance, 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 Following the extensive public consultation work carried out in the previous year to inform new business plan priorities, project specific consultation continued on implementation of the business plan.
- F2 The website review, to be completed in summer 2012, will provide for clearer and easier access to information, news and consultations, and will provide for easier reporting of issues to the council's services.
- F3 Also consolidated over the past year was the council's on-line magazine, which replaced the former hard copy 'Ashford Voice' publication.
- F4 The council continues to support various forums to discuss issues relevant to representative groups across the community. For example, involved discussions have taken place through the parish forum and direct with parish council representatives over matters about issues and managing responsibilities with localism as an aim. The council continued to engage with local stakeholders through various means including its forums. These include: the parish forum; the community forums; the tenants' forum, and youth forum, as important means to engage with local people.

Is the framework effective?

- 12. Once a year the council has responsibility for conducting a review of the effectiveness of its governance framework, including the system of internal control. This report summarises the position for this committee to draw its conclusion.
- 13. The review informed by the work of managers who have responsibility for developing and upholding the governance environment. It is further informed by the Head of Internal Audit's annual report, and by reports from our external auditors (the Audit Commission) 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

- 14. As regularly reported to the council the past year has seen changes for our external auditors, the Audit Commission, as it prepared for its outsourcing. From next November new private sector auditors will take over from the Audit Commission. Nevertheless, our existing external audit team continued its responsibility to provide a good audit service over the past year, and regularly attended Audit Committee meetings and informal meetings with senior management.

15. During the past year our external auditor reported an unqualified opinion on the council's 2010/2011 financial statements. He continued to be of the opinion that financial governance and internal controls were good, the council is strategic in setting priorities, and it has good arrangements for securing value for money.

Internal audit

16. Internal audit is responsible for checking the quality and effectiveness of the system of governance and internal control, through a risk-based work plan. 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. Reports include suitable recommendations for improvements to internal controls and action plans for agreement, or rejection, by Heads of Service. An Internal Audit Annual Report contains the Head of the (Internal) Audit Partnership's opinion on the overall levels of internal control (a view based on the relative significance of the systems reviewed during the year).
17. This year's report, once again, draws the conclusion that internal controls 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 to the Audit Committee, 25 June 2012

18. Our internal audit work continued to be carried out as part of the four-council Mid-Kent Audit Partnership. This arrangement has worked well and has provided good ability to strengthen audit, as well as the opportunity to share in combined learning.

Overview and Scrutiny Committee

19. This committee provides means for a scrutiny role over decisions made by the Executive as well as providing public reviews (the overview) of issues or council services that affect local people. The committee produces and publishes an Annual Report, which summarises its work over the previous year. The 2011/2012 annual report was considered by the Cabinet on 22 May and will be considered at the full Council on 19 July 2012. The report highlighted the committee's work in several areas, including: the 2011/2012 budget; a post-May 2011 elections procedure review, and a review of proposed events for the 2012 Jubilee and Olympics, among other topics.

Standards Committee

20. As mentioned at C2, the future role of the committee is under review due to the legislative changes. Nevertheless, 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 2011/2012, to consider the annual report for the previous year). Its 'assessment panel' met on three occasions to consider exempt local conduct issues referred by the Monitoring Officer (the Head of Legal and Democratic Services), all about parish council matters.
21. This year's annual report will be considered at a future meeting of the Standards Committee. As normal, the report will also include a summary of complaints considered by the local government ombudsman.

Audit Committee

22. The Audit Committee is responsible for overseeing and reviewing governance issues related to internal control, financial and risk management arrangements. The committee considers and approves the annual accounts for the council, and adopts the Annual Governance Statement. The committee is the principal forum for consideration of our external auditor's reports. During 2011/2012 the committee met on five occasions, plus a specific induction session for the new committee. Its work included:
 - considered various annual reports
 - considered and approved the 2010/11 audited financial statements
 - further work on new approaches to risk management, and principles of good partnership governance
 - recommended the council's response to the government's consultations on the future of local public (external) audit
 - considered various reports from the external auditor including the annual audit letter.

Selection & Constitutional Review Committee

23. This committee is responsible for reviewing and considering amendments to the constitution, and considers the representation for committees and outside bodies. Between May 2011 and April 2012 the committee met on four occasions. Mostly its work was routine. It did adopt new contract standing order procedures about the buying-in of external expertise (consultants) following amendments that resulted from audit and past Overview and Scrutiny Committee reviews. It also adopted the principle of providing the Audit Committee with the ability to co-opt a non-elected representative to its committee should it wish to do so.

Management Team

24. The Management Team works to provide collective input to the strategic direction for the council and its internal governance arrangements, as well as its 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.

Areas of significance governance for review

25. Last year two areas were highlighted as warranting further attention (risk management approach, and the principles of good partnership governance in expectation of more partnership working emerging). On both the Audit Committee has taken the work forward and the work will be completed this year. Already the Cabinet has approved a new policy for partnership governance principles; the final stage is for this committee to review arrangements for the more significant partnerships against the principles it recommended for approval.
26. Only one new area is highlighted resulting from a 'limited assurance' conclusion from the Head of the Audit Partnership, who considers it merits inclusion in this statement. This concerns some aspects of procedural compliance with the council's arrangements under the Data Protection Act. It is the subject of an agreed action plan and progress on this will be reported to the Audit Committee.

Conclusion

27. Governance arrangements were under regular review and remain strong. 2011/2012 saw a new council, following the May 2011 election, and a new Cabinet long-term policy framework to help steer the council's strategic work. Good progress was made in carrying out several important business plan projects, following work in the previous year to consult and decide on priorities. Financial management was sound and good progress made on achieving the budget and delivering the savings needed. Financial governance continues to receive good endorsement from the council's external auditor. Progress was made on the two governance matters highlighted for further review in last year's annual statement (risk management, and governance arrangements for partnership working).
28. In conclusion governance arrangements are appropriate and effective, and responsive to change and adaptation as circumstances dictate. ***They offer substantial assurance that the council's governance arrangements remain fit for purpose, whilst any limiting factors are noted within this report, to be addressed before publication of the next Annual Governance Statement.***

Signed

Leader of the Council

Chief Executive