

ROTHER DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Rother District Council (RDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. RDC 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 regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, RDC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

RDC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website or can be obtained from the Service Manager – Corporate and Human Resources, Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX or telephone 01424 787862. This statement explains how RDC has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

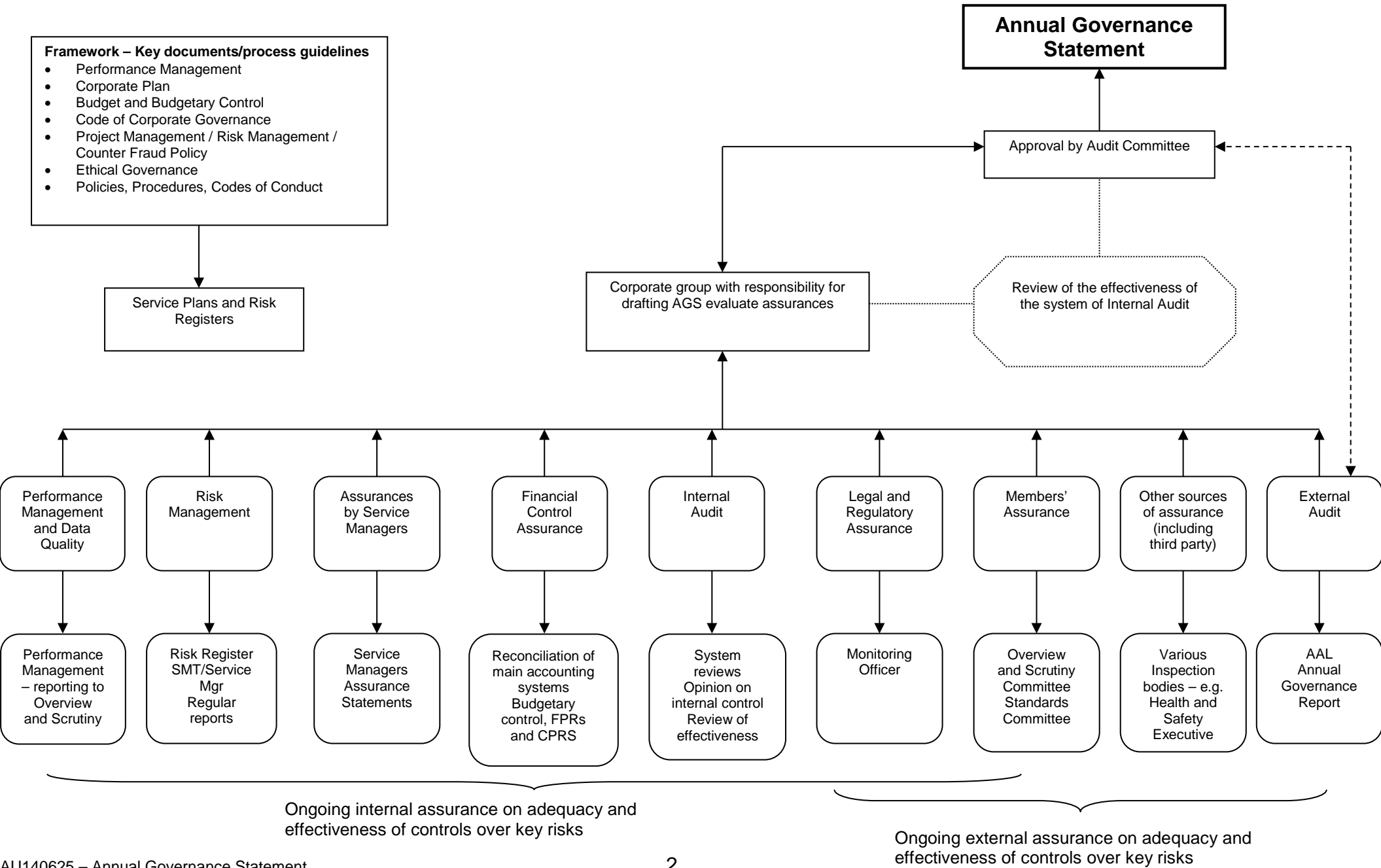
The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values 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 that framework and is designated 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 Rother's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Rother for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

ANNUAL GOVERNANCE FRAMEWORK



Review of Effectiveness

RDC has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Performance Management and Data Quality

The Rother Corporate Plan 2006 – 2016 sets out our vision for the district and priority areas for improvement in quality of life locally. The Corporate Plan is delivered through a programme of projects and complemented by a resetting strategy that seeks to adapt our services to on-going cuts in central grant support. The Corporate Plan is regularly monitored by Members and is currently being revised to set the direction for the next 7 years.

RDC's performance management framework is set out in its Annual Performance Plan, published on 30 June each year. Objectives and targets are set against the Council's corporate aims:

- Putting Customers First
- Delivering Value for Money
- Building Stronger, Safer Communities
- Working in Partnership

Performance is monitored against a key performance indicator (KPI) set recommended by Scrutiny Members in January of each year and subsequently approved by Full Council. Performance against the KPI basket is reported to Members quarterly and includes other areas if performance is giving rise for concern. Details of any remedial action to be undertaken, is included in these reports. Benchmarking against other similar authorities and national quartiles where available is a key aspect of performance reporting. Strategic Management Team and the Overview and Scrutiny Committee (OSC) routinely carry out high-level oversight of performance. The Committee recommends actions and resource reallocation for action by Cabinet where appropriate.

RDC has led on a shared service procurement with Wealden District Council (WDC) of a replacement performance reporting system, Covalent, which is now in full use to capture and analyse data for the Council. The system is being extended to record data to enable the effective monitoring of the delivery of projects and business plans associated with the Corporate Plan.

Sharing the system brought significant financial savings across 5 years to both authorities. This management information system incorporates robust data quality features. A regular User Group brings together users from across the authority to share experience and ideas. Data quality is also managed through service representatives across the organisation. Quality control processes include Service Manager sign off, risk assessment and internal auditing of measures and their data.

The Council has recently embarked on a Council-wide Lean Working Programme that seeks to identify new efficiencies and process improvements to achieve faster, more cost-effective service delivery from a customer focus. The programme is being led by performance management staff assisted by a core group of staff from the frontline. The group is seeking to engage staff across the authority and increase involvement and decision making at the frontline.

Risk Management

RDC has an approved Risk Management Policy and Strategic Integrated Framework. This document shows the role both Members and officers have in the identification and minimisation of risk. Training has been provided for both Members and staff and a programme of risk assessments continues. Further training is planned in 2014/15. Progress has been made to further embed risk management within the organisation and is now driven by risk and corporate governance forming an integral part of the quarterly meetings of the Strategic Management Team (SMT). Desk top exercises will be held on a regular basis to test identified risks against our Business Continuity planning. Risk Management is a feature of all new projects and is an integral part to the service planning process. Day to day management and monitoring processes and procedures are in place but further work needs to be undertaken to improve the awareness of all staff. The corporate risk register forms an integral part of the Council's risk management process and is now available throughout the Council's services.

Legal and Regulatory Assurance

The role of Solicitor to the Council entails oversight of all the Council's legal dealings, including as necessary the sealing or signing of formal legal documents. The role of Monitoring Officer entails oversight of the Council's ethical framework, oversight of the Council's Constitution including the proper allocation of functions between the executive, regulatory and scrutiny limbs of the democratic machinery, and the statutory duty to report direct to full Council with respect to any breach of law. Key to the performance of the Monitoring Officer is the vetting of the agenda, reports and minutes of all meetings.

From December 2013 the Service Manager – Corporate and Human Resources became the Council's Monitoring Officer. The Council's Legal Services are provided by WDC and their lead officer is the appointed Solicitor to the Council.

Members' Assurance – Audit Committee

During 2013/14 the Resources Overview and Scrutiny Committee (ROSC) received and scrutinised quarterly reports from the Head of Internal Audit on the reviews carried out and progress against the plan and the year-end report includes a formal opinion of the adequacy, reliability and effectiveness of the Council's Internal Control systems.

From May 2014, the Council has delegated responsibility for internal control to the newly created Audit Committee. This followed a review of the Council's committee

structure where the audit related role and responsibilities of the ROSC were transferred to the Audit Committee.

Members' Assurance – Standards Committee

The Standards Committee comprises 4 District Councillors (1 Conservative, 1 Liberal Democrat, 1 Labour and 1 Association of Independents), 2 Independent Person(s) and 2 Parish & Town Councillor representatives, and meets twice a year. Under the Localism Act 2011, the Standards regime changed and Councils were given the responsibility of setting their own Codes of Conduct and procedures for dealing with complaints against Members. The Monitoring Officer is now able to determine minor complaints after consultation with one of the Independent Persons. All valid complaints continue to be reported to the Standards Committee. Sanctions for dealing with Councillors who may have breached the Code of Conduct are significantly reduced under the new regime. The registration of Members Personal Interests has also changed with Members now having to declare Disclosable Pecuniary Interests for both themselves and their partners.

In addition to its statutory responsibilities, the Council has also vested in the Committee the overview of complaints handling and Local Ombudsman investigations. In this regard, the Committee receives a bi-annual report and an annual report on the Council's whole year performance.

Assurances by Service Managers

In addition to the Internal Audit reviews, Service Managers are required on an annual basis to complete a Managers Assurance Statement covering internal control within their Service.

Other Sources of Assurances

Apart from the work of internal and external audit, there were no other inspections which raised any governance issues for the Council.

Financial Control Assurance

A regular process of reconciling the main accounting systems is in place. Budget monitoring is produced monthly for all budget managers and regular reports have been submitted to Cabinet. The quality of reporting is continually under review by Finance and budget managers and improvements have been made this last year.

Internal Audit

Each year an Internal Audit plan of work is agreed by the Strategic Management Team, the Section 151 Officer and the Resources Overview and Scrutiny Committee (now Audit Committee). Progress against the Audit Plan was 80%. All core financial audits were completed together with the audits that had been categorised as high risk within the Plan.

The Head of Internal Audit reported quarterly to the ROSC (now Audit Committee), on the audit reviews that have been undertaken highlighting any significant recommendations that have been made. In addition, the Strategic Management Team and the Section 151 Officer review the effectiveness of Internal Audit annually.

External Audit

External audit provide the Council with an Annual Audit Letter and an Annual Governance report, which reports on the Council's financial performance, value for money and a review of the effectiveness of the governance arrangements.

Significant Governance Issues

In terms of internal control, there have been areas where weaknesses have been identified through the Managers Assurance Statements, Internal Audit and the work of the Standards Committee and these are commented on below. In addition, there are areas where due to external factors these have potential to adversely impact on the Council.

(i) **Further Reductions in Government Funding**

The reduction in central Government funding will continue into 2015/16 with a further reduction of £700,000. Total formula grant funding from Government will have reduced by nearly £4m since 2010/11. The Council's service resetting programme achieved its second phase in 2013/14 to deliver savings in excess of £1m, largely through redundancies. It is forecast that further savings of £1.4m will need to be made in 2015/16. The scale of the cuts means that not all current services can continue to be delivered or delivered at existing levels of performance. This will expose the Council to the risk of challenge / failure to meet statutory requirements and the risk of service failure through lack of resources. Mitigation measures will be required and the delivery of comprehensive information to the general public is essential.

(ii) **Staff Restructure**

On the 20 May 2013, full Council agreed to the restructure of the senior management team of Rother. This resulted in the deletion of the Chief Executive post and 3 Heads of Service posts. The Council's senior management structure is headed by 2 Executive Directors and 6 Service Managers. The statutory role of Head of Paid Service will be rotated between the 2 Executive Directors. The statutory role of Chief Finance Officer is assigned to the Service Manager – Finance and Welfare. The role of Monitoring Officer is assigned to the Service Manager – Corporate and Human Resources. The loss of these posts has had an impact on the pool of internal knowledge and the capacity of the Council to manage its affairs.

Following the senior manager restructure, the remainder of the Council workforce was reviewed and new departmental structures put in place. The implementation of the new structure aligned with the plans identified in (i) above to deal with the funding shortfall and therefore should help to mitigate the effects of the reduced knowledge and capacity. The Council's operational performance management will identify (and has done) deterioration in service

performance and alerts senior management and Members. As part of the Corporate Plan review minimum service levels will need to be identified and this is likely to result in a shift of staff resources within the organisation over the next 2 years.

(iii) **Business Rate Retention Scheme**

The introduction of the business rate retention scheme in April 2013, presented a major funding risk to the Council. Due to the impact of appeals and other changes in the business sector, 2013/14 saw the business rate collection fund go into deficit by nearly £870,000. Collection performance actually improved on previous years but clearly this volatility is difficult to manage and financial reserves will need to be boosted to ensure the funding loss can be met if it reoccurs in the future. Development of better financial modelling and forecasting is therefore essential.

Scope for business growth is limited by the nature of the district, being largely an area of outstanding natural beauty. However the development of North East Bexhill (resulting from the new Bexhill to Hastings Link road) provides an opportunity to make up the lost finances in 2013/14.

(iv) **Reserves**

The Council's revenue budget report for 2014/15, highlighted that the current use of reserves is not sustainable. By the end of 2014/15 reserves are estimated to be approximately £6m but will be depleted to a minimum level within 4 years. Failure to deliver the level of savings could result in increasing the withdrawal of funds from reserves in supporting core services and a risk that the Council will have insufficient cash reserves to manage adverse variations in spending.

(v) **Capital Programme**

For a number of years, the Council has relied on its own resources to meet the capital investment requirements of its Corporate Plan and other strategies. The development of a new Corporate Plan should be complete during 2014, and will come with it a requirement for further investment in the District in order to regenerate the economic and social wellbeing of the area. At a time of major public funding cuts, the level of investment required is likely to be of a scale beyond the financial ability of the Council. The Council will need to work in partnership with the public, voluntary and private sectors to pool resources but this brings with it a higher risk of failure than projects solely delivered by the Council. To mitigate the risk, the Council will need to demonstrate strong leadership skills to align aspirations and funding to deliver the investment in the area.

(vi) **Joint Working**

It is expected that the Council will continue with its programme of delivering services jointly with other bodies where it helps to maintain or improve services at a reduced cost. Joint working does however reduce the Council's flexibility and ability to redirect its resources when committed to delivery of a service for another Council.

The commencement of Rother's phase of the new joint waste collection contract from April 2014, presents a major risk of service failure without adequate planning and resourcing of the project. The new contract will also see the introduction of charging for green waste collection which is expected to generate in excess of £300,000 annually. New internal procedures and processes will be required together with new software to manage the contract and deal with the information coming from residents to the Contractor.

There have been varying degrees of difficulty experienced in the new contract in the partner authorities. The main problems arose following changes to how the services were delivered. For Rother service changes are planned to occur from 30 June 2014. Robust contract monitoring will be required and contingency plans are being put in place to deal with service failures.

(vii) **Poor Economic Conditions**

The poor national economic situation continues to depress the local economy which impacts on the Council in a number of ways. There are signs of greater economic activity through increased planning applications but it is too early to say whether this will be sustained. Therefore whilst income and activity levels

during 2013/14 were at or above target, there remains a risk that income from key services such as Planning, Building Control and Land Charges will fall in future years. Also recent announcements from the Government regarding permitted development rights will further reduce income from small scale construction. The other main impact relates to the welfare reforms of the Government increasing workloads and pressure will be felt by Housing and Benefit departments in dealing with the consequences. There is a risk that with the need to reduce Council spending there will be capacity issues and a reduction in service quality.

(viii) **Business Continuity**

The Council's business continuity plan is currently being reviewed following the structural changes referred to above. This will need completing in a timely way to ensure the plan is fit for purpose and does not lead to service failures in the event there is a disruption to normal business.

(ix) **ICT Code of Compliance**

The Council has committed £475,000 of funding to ensure the Council updates its current desktop computer provision and a number of software and security measures to ensure continued compliance with Government requirements. This followed identification of potential risks to compliance that would impact on key services such as Housing Benefits which could not operate without access to the Department of Work and Pensions.

(x) **Internal Audit Reviews Showing Unacceptable Internal Control Environment**

During the year internal audit reviews identified a number of service areas where the internal control environment was not satisfactory. Detailed below are those areas where action remains outstanding:

- a. *Risk Management* – There are risk registers in place but Service Managers, operational managers and project managers still require further training on risk identification and assessment. The Service Manager – Corporate and Human Resources plans to address this issue by September 2014.
- b. *Section 106 Agreements* – Whilst various departments maintained their own records, no central record of Section 106 agreements was kept showing all monies anticipated, received and spent. This information is now being recorded on the Ocella system but reports still need to be written to supply managers in other service areas with the information they require to ensure that all income is correctly received. Work is now in hand to produce this information by the end of June 2014.
- c. *Asset Management* – Internal Audit highlighted inconsistencies in the records maintained on the land and property assets of the Council and the need for a single computerised asset management system. Steps to address this issue have been hampered by various staff changes and the prohibitive cost of external solutions. With the appointment of a new Housing and Asset Development Officer and a minor reallocation

of personnel within the Property Team this will now help move the project forward.

- d. *Works Contract* – A number of issues have been highlighted relating to gaps in officers' knowledge and understanding of Contract Procedure Rules and the administration of contracts not only in accordance with these rules but also in contract processes, monitoring and management. It is therefore important that staff involved in works contracts receive ongoing training in the skills and competencies required.
 - e. *Data Protection* – Issues were found with the way personal data is shared and how potential breaches are recorded. The Data Protection Officer has confirmed this matter has now been resolved but that staff training relating to the sharing of personal data will be addressed by September 2014 as part of a wider review of IT security and associated requirements and that all potential breaches are now logged.
 - f. *ICT Network Security* – The Internal Audit Review highlighted actions required to strengthen online security and to ensure compliance with Public Services Network requirements. Funding for an ICT Essential Maintenance Programme has recently been approved and the Service Manager – ICT and Customer Services is looking to use this project to address the remaining issues within the next few months.
 - g. *Benefits* – There is an ongoing issue regarding the recovery of benefit overpayments. The Service Manager – Finance and Welfare states that the total outstanding debt (£1.4 million) is in line with expectations given the overall value of benefit spend. However, only very limited resources are currently available to take further action on debts "referred to Legal" as no cases are pursued by the Wealden and Rother Shared Legal Service. Concern is therefore expressed about the potential loss of income as more money could be recovered. A reduction in Wealden District Council's management fee has been agreed in principle to fund extra resources but this is yet to be finalised.
- (xi) **Cash and Banking** – this relates to issues experienced with the current cash collection contract. However, the risk has reduced now that an alternative contractor has been appointed and the process of switching providers has begun.
- (xii) **Other areas of emerging risk** include concern regarding segregation of duties. The reduction in staff resources has also had an impact on division of duties, which are designed to reduce the risk of manipulation or error. This means that auditors will now need to re-evaluate where the division of duties is essential, and where it is merely desirable. Internal Audit will be liaising with managers in Finance in the coming months to confirm that all necessary checks and balances are in still in place.

The Principal Auditor is working with Service Managers and the Strategic Management Team to actively try to reduce the number of long outstanding high risk recommendations in some of the above areas mentioned above.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Cllr Carl Maynard
Leader of the Council
On behalf of Rother District Council

Head of Paid Service
On behalf of Rother District Council