

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 Head of Corporate Services, Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX or telephone 01424 787716. 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.

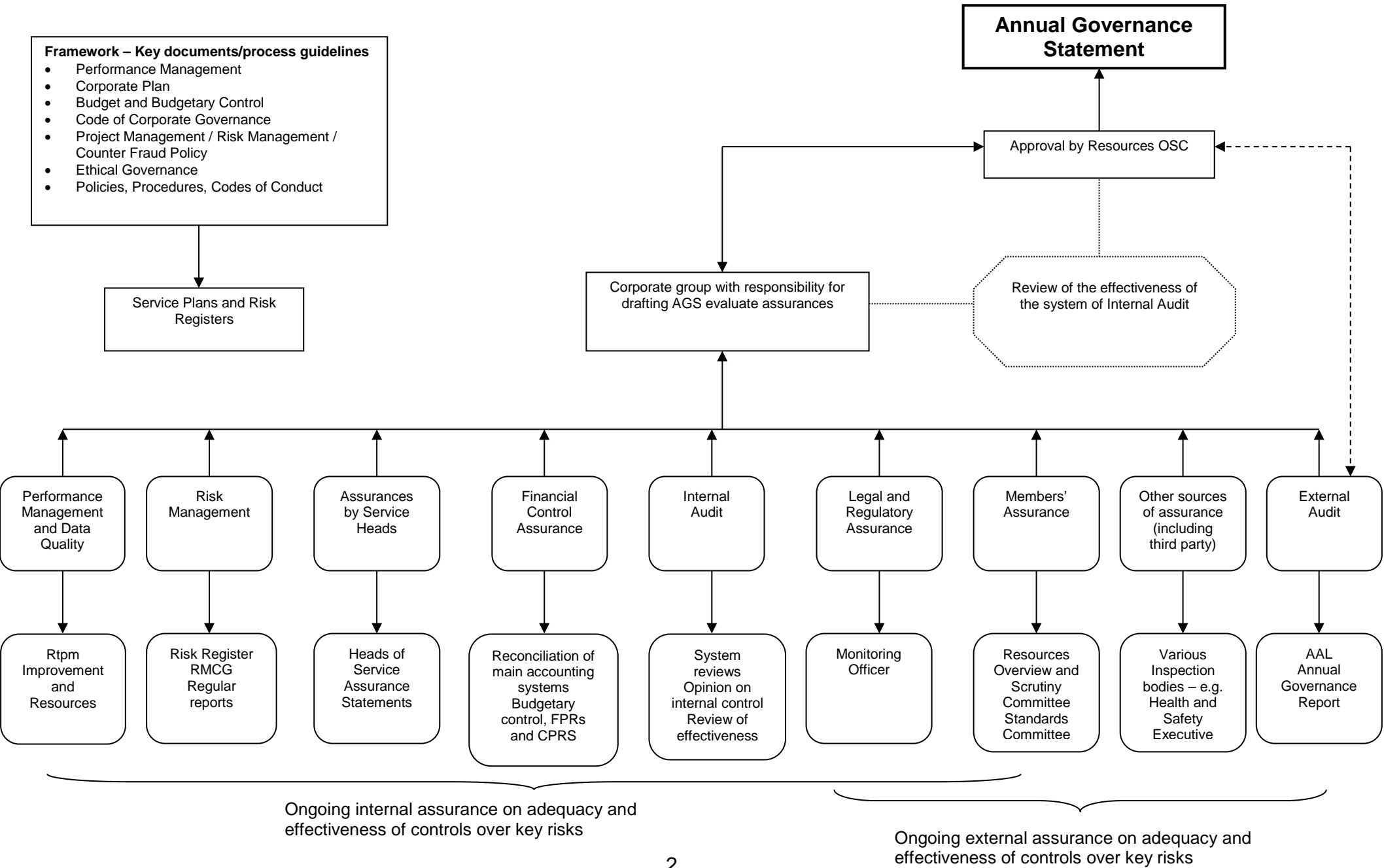
The Purpose of the Governance Framework

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 2013 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 5 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 Resources Overview and Scrutiny Committee (ROSC) 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. 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 a Member Champion (Chairman of ROSC) and service representatives across the organisation. Quality control processes include Head of Service 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. 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 Council's Heads of Service. This group consists of all Heads of Service from within the organisation and is chaired on a rotational basis. 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. A copy of the code is on our website or can be obtained from the Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX.

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 MO is the vetting of the agenda, reports and minutes of all meetings.

From June 2010, the Head of Corporate Services 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 – Resources Overview and Scrutiny Committee

Council has delegated responsibility for internal control to the ROSC. This role had been undertaken by the Audit Committee prior to April 2011. Following a review of the Council's committee structure, the role and responsibilities of the Audit Committee transferred to the ROSC from 2012-13.

During 2012-13 the ROSC, received and scrutinised quarterly reports from the Head of Corporate Services / 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.

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 Town & Parish 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 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 Heads of Service

In addition to the Internal Audit reviews, Heads of Service 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 (SMT) and Section 151 officer and the Resources Overview and Scrutiny Committee. Progress against the Audit Plan was 87%. 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 reports quarterly to the ROSC, on the audit reviews that have been undertaken highlighting any significant recommendations that have been made. In addition SMT 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 2014-15 with a further reduction of £650,000. Total formula grant funding from Government will have reduced by nearly £3m since 2010-11. The Council's service resetting programme will move into a second phase in 2013-14 to deliver the necessary savings. 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) **Senior Management Restructure**

On the 20 May 2013, full Council agreed to the restructure of the senior management team of Rother. This will result in the deletion of the Chief Executive post and 3 Heads of Service posts. The Council's senior management structure will subsequently be 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 has been defined within the new senior management structure. The role of Monitoring Officer will be defined following appointment of the 6 service managers and therefore there remains a risk to the authority if this appointment is delayed. The loss of these posts could have a material impact on the pool of internal knowledge and the capacity of the Council to manage its affairs. The implementation of the new structure will align 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.
- (iii) **Whole of Council Restructure**

Subsequent to the delivery of the new senior management structure, a new reduced structure will be developed for all Council staff. This will reflect the plans of the second phase of the service resetting programme and the new senior management structure. Again the Council is at risk of service failure should there be insufficient capacity to continue to deliver.
- (iv) **Business Rate Retention Scheme**

The introduction of the business rate retention scheme in April 2013, presents a major funding risk to the Council. The previous protection offered by the national non domestic rates pool has been replaced by a level of risk and reward with the government based on collection performance and more importantly changes in the number and scale of businesses in the area. Rother's scope for business growth is limited by the nature of the district, being largely an area of outstanding natural beauty. It is also expected that due to the shrinkage of the public sector and the conversion of schools to academies, there will actually be a reduction in the chargeable amount of business rates in 2013-14. The Council will therefore be heavily reliant on collection performance to protect this revenue stream.
- (v) **Reserves**

The Council's revenue budget report for 2013-14, highlighted that the current use of reserves is not sustainable. By the end of 2013-14 reserves are estimated to be approximately £7.2m 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.

(vi) **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 2013, 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.

(vii) **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.

During 2013-14 there will be the additional risk of the Council's current waste collection and street cleansing contractor failing to adequately resource and focus on the service during the run down to contract end. This may be exacerbated by the need for the current contractor to resource a major new contract it has won in a neighbouring county over the coming 12 months.

Significant additional work is therefore expected during 2013-14 to prepare the Council and residents for the changes and progress will require close monitoring during the year.

(viii) **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 there remains a risk that income from key services such as Planning, Building Control and Land Charges will be below target. 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.

(ix) **Business Continuity**

The Council's business continuity plan will need to be refreshed following the structural changes referred to above. If this is not completed in a timely way there is a risk that the plan will not be fit for purpose and cause service failures.

(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: as mentioned earlier additional training on risk management is still to be provided. It is hoped that this can be provided by the Council's insurers. Risk Registers remain in place and it will be important for these to be reviewed regularly particularly in light of the Council restructure.
- b) Section 106 Agreements: a system is required for recording Section 106 agreements where a financial contribution is due as a central record of all monies anticipated, received and spent. Additionally a nominated officer is required to oversee the maintenance of the records and this is in discussion. Without such a system of recording and an officer overseeing, there is a risk that monies due to the Council will not be recovered.
- c) Asset Management: the Internal Audit review highlighted inconsistencies in the records maintained on the land and property assets of the Council. Work is on-going investigating possible software options in conjunction with the Head of Finance, with a view to integrating data management and financial management for estates matters. The collating of the data that would be required to be imported into any new system has commenced. A moratorium has been approved for internal redeployment to the vacant part-time admin post, in order to undertake data inputting. In addition, the Housing Development Officer has been seconded part-time to the Estates section for 2 days per week, which will free up some of the Estate Manager's time in support of this work.
- d) Waste Collection Contract: the Internal Audit Review highlighted concerns with the processes for reconciling payments to the contractor with the original contract sum. These internal processes have been reviewed and new procedures adopted for the new waste collection contract. These have been tested for the core contract costs but as yet untested on the variable works ordered through the contract. Additionally concerns were raised regarding whether the Council had adequately planned for dealing with high volumes of calls following the commencement of the new contract in April 2014. This latter issue will be kept under review by senior managers and SMT.
- e) Finance Internal reporting/reconciliations: following a number of minor control issues identified by Internal Audit during 2012-13, the introduction of a number of new procedures and the impact of the new management structure, it is necessary to undertake a review of the

internal reporting and reconciliation arrangements within the Finance Department.

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

Malcolm Johnston
Executive Director of Resources (Head
of Paid Service)
On behalf of Rother District Council