

## **HAMBLETON DISTRICT COUNCIL**

**Report To:** Audit, Governance and Standards Committee  
25 July 2017

**From:** Director of Finance (s151 Officer)

**Subject:** **ANNUAL GOVERNANCE STATEMENT 2016/17**

All Wards

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### **1.0 PURPOSE AND BACKGROUND:**

- 1.1 Good governance is important to all involved in Local Government, however, it is a key responsibility of the Leader of the Council, Chief Executive and Director of Finance (s151 Officer).
- 1.2 The preparation and publication of an Annual Governance Statement (AGS) in accordance with the CIPFA / SOLACE Framework is necessary to meet the statutory requirements set out in Regulation 4(2) of the Accounts and Audit Regulations which requires authorities to “conduct a review at least once in a year of the effectiveness of its system of internal control” and to prepare a statement on internal control “in accordance with proper practices”.
- 1.3 The AGS refers to the year 2016/17 and has therefore been written to reflect the processes, management and committee structure at that time.

### **2.0 THE SYSTEM OF INTERNAL CONTROL:**

- 2.1 The internal control system encompasses the policies, processes, tasks, behaviours and other aspects of the Council, taken together:-
  - Facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the Council's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud.
  - Help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation.
  - Help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.
- 2.2 The scope of internal control accordingly spans the whole range of the Council's activities and includes those controls designed to ensure:
  - The Council's policies are put into practice;
  - The Council's values are met;
  - Laws and regulations are complied with;
  - Required processes are adhered to;
  - Financial statements and other published information are accurate and reliable;
  - Human, financial and other resources are managed efficiently and effectively, and
  - High quality services are delivered economically, efficiently and effectively.

### **3.0 THE REVIEW PROCESS:**

- 3.1 The Cipfa/SOLACE Framework defines proper practices for the form and content of a Governance Statement that meets the requirement to prepare and publish a statement on internal control. There is no requirement to prepare and publish a separate statement on internal control.
- 3.2 Subsequent to the CIPFA “Statement on the Role of the Chief Financial Officer in Local Government”, which was issued in 2010, it is now expected that the AGS will include a specific statement on whether the Council’s financial management arrangements conform to the governance requirements of the statement. Furthermore where they do not, to explain why and how the Council’s arrangements deliver the same impact.
- 3.3 At Hambleton there is full compliance as the Director of Finance (s151 Officer) has unfettered access to Senior Management Team and reports directly to the Chief Executive.
- 3.4 The External Auditor will be considering the AGS as part of their review of the Annual Financial Report - Statement of Accounts 2016/17. The Auditor is required to issue their opinion on the accounts as to whether they present a 'true and fair view' of the financial position of the Council at the balance sheet date.
- 3.5 The AGS provides public assurance that the Council has a sound system of internal control, designed to help manage and control risks that will impede the achievement of its objectives. The AGS should not be seen as a purely financial requirement, but as an important public expression of what the Council has done, how it sets out priorities, monitors performance and has put in place good business practice. It is also about the process for ensuring high standards of conduct and is a means of demonstrating sound governance.
- 3.6 In common with most Local Authorities, the Council has a well established system of internal control in place. However, the AGS process requires the Council to formally demonstrate what these controls are and how they safeguard against the most significant risks to the organisation and to gain assurance, based on evidence, that these controls are operating effectively, or where they are not, to identify areas for improvement.
- 3.7 Assurance can be provided by evidence from a number of sources including: inspection records, external audit reports, internal audit reports and direct assurance from managers. It is the responsibility of both Members and Chief Officers to obtain and provide such assurance. The production and publication of an AGS is therefore not an isolated act, but the final stage in a continuing review of internal control processes and procedures.

### **4.0 CONCLUSION:**

- 4.1 Having taken evidence from a number of sources that could potentially identify whether there are any significant weaknesses in the Council’s system of internal control, none have identified any such weaknesses in the system. Members can take assurance from this that the Council’s system of internal control is adequate and effective.

### **5.0 RISK ANALYSIS:**

- 5.1 There are no risks associated with the recommendations in the report.

### **6.0 FINANCIAL IMPLICATIONS:**

- 6.1 There are no financial implications associated with the recommendations in the report.

## **7.0 LEGAL IMPLICATIONS:**

7.1 The Council is under a statutory duty to undertake a review of the systems of internal control operating within the Council during 2016/17 and to approve an Annual Governance Statement. Failure to undertake the review or present an Annual Governance Statement would be a breach of this statutory requirement.

## **8.0 RECOMMENDATIONS:**

8.1 It is recommended that Members:-

- 1) agree with the conclusion of the review of the system of internal control, and;
- 2) approve the content of the Annual Governance Statement for publication with the Statement of Accounts 2016/17.

LOUISE BRANFORD-WHITE  
DIRECTOR OF FINANCE (S151 OFFICER)

**Background papers:** CIPFA/SOLACE: Delivering Good Governance in Local Government ~ Framework & Guidance.  
CIPFA Finance Advisory Network 'AGS 'Rough Guide' for practitioners.  
CIPFA/SOLACE: Application Note to Delivering Good Governance in Local Government: a Framework. (March 2010)

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**HAMBLETON DISTRICT COUNCIL**  
**ANNUAL GOVERNANCE STATEMENT 2016/17**

**Scope of Responsibility**

Hambleton District Council 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. Hambleton District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Hambleton District Council 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. The authority's financial management arrangements confirm with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Hambleton District Council has approved and adopted a code of corporate governance. The Council's governance arrangements are consistent with the seven principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework - Delivering Good Governance in Local Government. The Annual Governance Statement sets out how the Authority has complied with the Code and also meets with regulation 4(2) of the Accounts and Audit Regulation, in relation to the publication of this statement – the annual governance statement - on its governance and internal control arrangements.

**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.

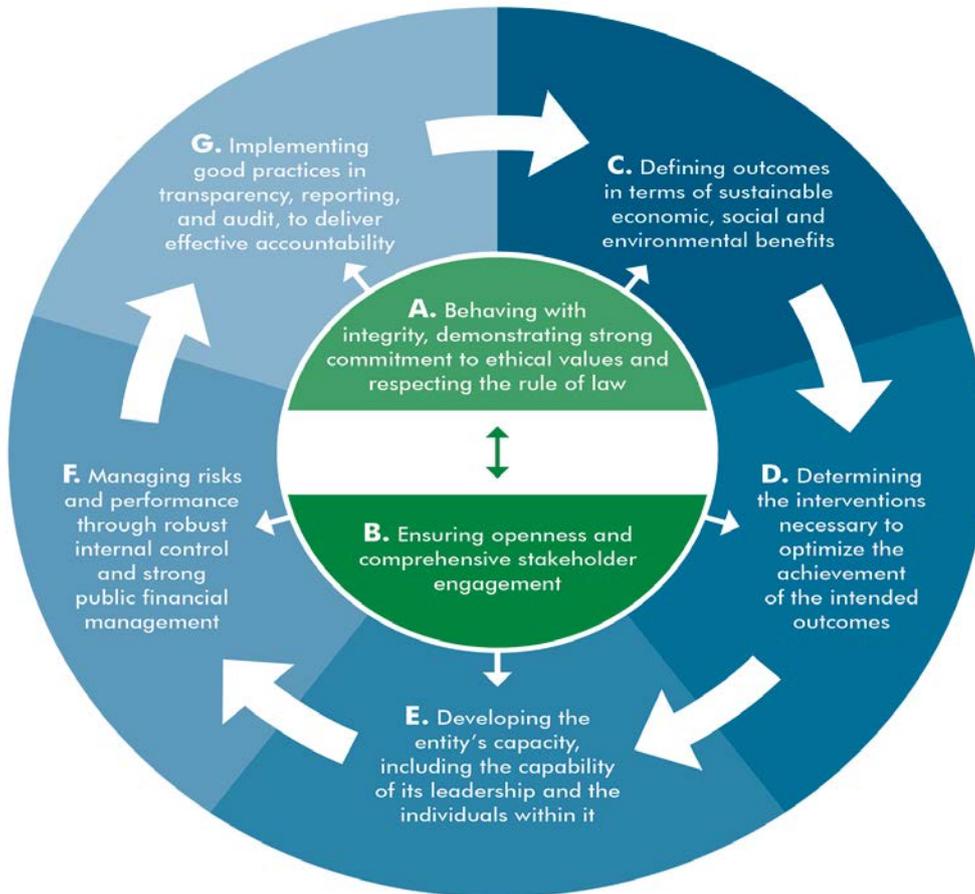
The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Hambleton District Council'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 Hambleton District Council for the year ended 31 March 2017 and up to the date of the approval of the Statement of Accounts for 2016/17.

**Core Principles of Good Governance**

The diagram below, taken from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'), which is also included in the

CIPFA/SOLACE Framework, illustrates the seven principles of good governance in the public sector and how they relate to each other. Principles A and B permeate implementation of principles C to G illustrating that good governance is dynamic. In line with this the Council's Annual Governance Statement demonstrates the Council is committed to improving its arrangements on a continuing basis through a process of evaluation and review, whilst achieving its objectives and acting in the best interest of the public.



**Diagram 1: the seven principles of good governance in the public sector**

### **The Governance Framework – Key Elements**

The Council is made up of 28 Councillors who are democratically accountable to residents of the Borough. The full Council appoints the Leader and the Leader appoints the Cabinet and Deputy Leader. The Cabinet is responsible for most strategic day to day decisions. The Council holds the Cabinet to account by appointing scrutiny committees to question decisions and to propose policy changes where appropriate.

The key elements of the Authority's governance framework are detailed against each principle in the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government as follows:

## Principle A – Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Values and Integrity - Good Governance flows from a shared ethos or culture as well as from systems and structures. The spirit of good governance can be expressed as values which become part of the Council's culture and underpin policy and behaviour through the council from the governing body to the staff; this is in addition to compliance with legal requirements.

The Council's Values accord with the requirements of good governance and are key to the Council Plan:

- open, responsible, customer focused, fair and respectful

Respecting the rule of law - Ongoing monitoring and review of the Council's activities is undertaken to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. Hambleton District Council achieves this through a number of mechanisms:-

- The Director of Law & Governance (Monitoring Officer) has access to all draft Cabinet and Council reports and approves the minutes;
- The Legal Section monitors legal developments and notifies relevant Senior Officers;
- A protocol for the Monitoring Officer is in place;
- Senior Officers and Members are aware of the availability of the advice on propriety which is available from both the Monitoring Officer and Veritau North Yorkshire Limited (who provided internal audit services in 2016/17);
- The Monitoring Officer, the Director of Finance (S151 Officer) and Veritau North Yorkshire Limited have good working relations and often cross-refer matters;
- The CIPFA Statement on the role of the Chief Finance Officer (CFO) recommends that the CFO should report directly to the Chief Executive and be a member of the 'Leadership' Team. Furthermore that the AGS should assess the position of the CFO against these criteria and report on a 'comply or explain' basis. The Director of Finance (s151 officer) is the Council's designated S151 Officer, is an officer on Senior Management Team and reports directly to the Chief Executive.
- The CFO has unfettered access to information, to the Chief Executive and to Members of the Council. Therefore there are processes and procedures in place which provide assurance that the role of the CFO in Hambleton District Council meets the Statement's expectations.

This gives assurance as to the soundness of the system of internal controls that is in place for respecting the rule of law and examples include:

## Principle B - Ensuring openness and comprehensive stakeholder engagement

The authority works closely with other local public bodies, community and voluntary groups via a partnership approach to ensure effective delivery of its services. This is detailed in the Council Plan 2015-2019 which was approved at Cabinet on 4 July 2017. The Community Leadership section of the Council Plan 2015-2019, which was revised at Cabinet on 4 July 2017, aims for the authority to Lead on working with partners to make best use of increased devolved power and finances for local decision making and also to be responsive and flexible with our partners to meet their needs and requirements for improvements for all.

The Council's communication's team works with the Press to ensure information is received across the District as well as through the North Yorkshire Community Messaging app, the latest channel for community engagement. The council's website is also user friendly and enables access to Council information. Internal communication across the council is via the intranet, staff and Member newsletters and briefing by the chief Executive.

In order to demonstrate its openness the Council adheres to the Local Government Transparency Code 2015 which is the foundation of local accountability and provides access to areas such as the pay policy, payments to suppliers, senior officer salaries, parking, waste contracts and grants. This can be located at <https://www.hambleton.gov.uk/info/20097/transparency/262/transparency>

Consultations are used across the council to engage with the public and enable their direct views to influence strategies and policies, one such example being the annual budget consultation. In addition, to enable the public to highlight concerns a complaint procedure is in place which is reported on a quarterly basis to Management Team.

Openness, transparency and community engagement is the key that gives people the tools and information they need to enable them to play a bigger role in society.

### Principle C - Defining outcomes in terms of sustainable economic, social and environmental benefits

The outcomes of the Council to provide quality services are determined in the Council Plan 2015-2019 under the four priority headings:

- Driving Economic Vitality
- Enhancing Health and Wellbeing
- Caring for the Environment
- Providing a Special Place to Live

which details Hambleton District Council's purpose towards achieving social, environmental and sustainable benefits for the vision 'a place to grow'. The Council Plan is located at: [https://www.hambleton.gov.uk/downloads/file/1276/hdc\\_council\\_plan\\_2015-19](https://www.hambleton.gov.uk/downloads/file/1276/hdc_council_plan_2015-19).

In setting the priorities, national, regional and the public's priorities were taken into account, which results in the setting of the Council's Key Performance indicators. These are monitored on a quarterly basis by the operational business through Service Plans, reported to Management Team and then also to Members at Scrutiny Committee.

To ensure that plans deliver value for money and are sustainable the financial strategy is forecast for 10 years every year, along with the 10 year capital programme, which allows the statement on the position of reserves and annual budget to remain affordable. The treasury management Strategy also enables a prudent approach to the Council's plans and projects. Finally, the annual accounts support stewardship responsibilities subject to external audit opinion.

### Principle D – Determining the interventions necessary to optimise the achievement of the intended outcome

Member and Officer relationships - It is necessary that Members and Officers perform effectively in clearly defined roles to achieve the intended outcomes with the required level of intervention.

Excellent relationships between Officers and Members exists which is based on mutual trust enabling decisions to be made in a productive and transparent way. Trust is maintained through the involvement of all relevant parties at the right level of responsibility ensuring strategic decisions are led by Members and implementation of operational matters are at officer level directed by Management team.

Roles and responsibilities are defined in The Constitution for the executive, scrutiny and officer functions with clear delegation arrangements. The Constitution includes the Code of Member Conduct, a Code for Planning Conduct and an Officer and Member Protocol, as well as the financial regulations.

Democratic Services Forward Plan - All meetings of the Cabinet and key Committees are included in the Councils Forward Plan, which is published and available to the public. Delegated decisions are also recorded.

Financial sustainability - In order to achieve the long term financial targets the Authority has a 10 year financial strategy, supported by the annual budget which sets out the required savings target for 2 years – 2017/18 and 2018/19. All the expected risks to the Authority were considered in the budget report and the position of reserves underpins the long term financial resilience of the Council.

The Authority agreed an efficiency plan during 2016/17 with central government which is incorporated into the 10 Year financial strategy. This has given certainty of funding for the next 4 years and highlights the need to continue to identify efficiency savings and generate income.

Audit, Governance and Standards Committee - This Committee is an essential part of good governance. Internal and External Audit both have direct access to and support the Committee including the ability to have direct contact, without Officers of the Authority being present.

The detailed matters reviewed by the Audit Committee can be viewed at the quarterly meetings located at: <http://democracy.hambleton.gov.uk/ieListMeetings.aspx?CId=149&Year=0>

#### Principle E – Developing the entity’s capacity including the capability of its leadership and the individuals within it.

Senior Management Structure - At the end of 2016 the Chief Executive restructured the Senior Management Team with a view to providing additional capacity. This structure provides a Director and Head of Service to manage each of the two operational Directorates – Economy & Planning and Leisure & Environment - with support and oversight from the Executive Director. The Executive Director and both Statutory Directors (S151 and Monitoring Officer) report directly to the Chief Executive. Although in its infancy the new structure is operating effectively and is delivering both service improvement and the corporate projects.

Performance Coaching - In 2017 the Council has embarked on a programme of individual performance coaching for the whole organisation. The purpose of this is to achieve a balance between achieving organisational performance goals and personal development. The aim is that by encouraging individuals to take responsibility for their areas of work and own development, capacity will be released within the organisation, whilst empowering decision making and ownership.

Staff Development - The Council is currently in talks with Teesside University to design a bespoke Masters/MBA type qualification aimed at middle and senior managers in the organisation. It is hoped that by equipping the organisation’s management with the requisite skills and training to manage effectively then the organisation will become more effective. The council also supports individuals to review their own training requirement in the area at work where they and the organisation will benefit.

Training Requirements – The HR Strategy supports a variety of training techniques including the Induction training, Member training, Individual Performance coaching, Learning & Development training calendar, online learning, bespoke courses, presentations to employees and Members alike.

## Principle F – Managing risks and performance through robust internal control and strong public management

The Audit, Governance and Standards Committee have responsibility for overseeing the Risk Management Strategy and has delegated to the Scrutiny Committee to oversee the strategic risk register on a quarterly basis. Significant changes to the risk management process are reported to both Committees.

Risk Management is a standard element of all officer reports to Cabinet and other Member Committees etc. All senior officers are required to implement the Strategy and to further embed risk management within the Council. Risks are reported to Management Team on a quarterly basis with a full review occurring annually.

The Risk Register incorporates strategic and operational risks associated with delivery of the Council's corporate objectives under each Council Plan priority and also the key projects.

Members of the Cabinet and the Audit, Governance and Standards Committee, Members, Risk Owners and other selected staff have received specialist training. The Risk Management Guidance Manual is revised annually and the revised version is available to all employees on the intranet.

With the measures mentioned above in place the Council is able to identify, assess and manage the risks to the Council's corporate objectives. Further development of risk management across the council is being reviewed to clearly understand the exposure to risk that the Council faces.

The Council recognises the need to ensure that good governance arrangements and robust controls exist within all partners and other group working. It also recognises the need for comprehensive agreements to be in place for all significant partnerships and that these agreements should clearly identify how the risks of the partnership or working group arrangements will be managed.

## Principle G – Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Cabinet and Council - There is a hierarchy of decision making at Hambleton District Council to ensure reporting delivers effective accountability. Any new draft policies or strategies are developed and then submitted to the Senior Management Team. Once any amendments have been made, the policy/strategy moves on to Cabinet and then on to the full Council.

The Audit, Governance and Standards Committee - The Audit, Governance and Standards Committee has specific responsibility for monitoring the effectiveness of the Council's Code of Corporate Governance and to ensure that the Council undertakes its duties in an appropriate manner and maintains a high standard of Corporate Governance.

Scrutiny Committee - Part of the function of the Council's Scrutiny Committee is to scrutinise Council policies. It does not have a specific role in dealing with Governance, although it reviews the Council's strategic risks on a quarterly basis.

Internal Audit and Fraud - The council also operates internal audit and fraud investigation functions which comply with the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. The service in 2016/17 was provided by Veritau Limited, a shared service company jointly established by the Council and North Yorkshire County Council. Veritau's internal audit and counter fraud teams undertake an annual programme of review covering financial and operational systems and including systems, regularity, and probity audits designed to give assurance to members and managers on the effectiveness of the governance, risk management and control environment operating within the council. Through its work Veritau also provides assurance to the Section 151 Officer in discharging his statutory review and reporting responsibilities. In addition the team:

- provides advice and assistance to managers in the design, implementation and operation of controls
- helps to maintain the council's counter fraud arrangements including policy framework
- supports managers in the prevention and detection of fraud, corruption and other irregularities.

## Review of Effectiveness

Hambleton District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The Council recognises an ongoing need to review its governance arrangements and to respond to external reports and changes in legislation to ensure it continues to learn, improve systems and ensure compliance with relevant regulations.

The review of effectiveness is informed by the work of the senior officers and managers within the Council who have responsibility for the development and maintenance of the governance environment, Veritau North Yorkshire Limited's Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

In 2016/17, the overall opinion of the Head of Internal Audit from Veritau North Yorkshire Limited on the governance, risk management and control framework operating in the Council is that it provides Substantial Assurance.

## Significant Governance Issues

This Annual Governance Statement identifies the following governance issues and major risks for the Authority. These are:

Issue	Action taken/proposed
Significant reductions in government funding leading to the inability to sustain Council services at the current level.	£400k savings target in place for 2018/19, Commercial Strategy is in development to increase income generation to support services for 2019/20, more information to be provided from Central Government in due course during 2017/18.
Key Council Projects not delivered could result in reputational damage to the Council or increased financial pressure in the future	Key dates on projects are reported quarterly to Management Team. Capital Monitoring Group and Management Team receive regular update reports. The Director of Finance considers the risks and reflects this in the 10 year Financial Strategy.
Ineffective business continuity plans leading to loss of service.	Programme of work commenced in 2017 to update individual and the corporate businesses continuity plans. Training and advice provided from external source.
Inability to identify strategic risks leaves the Council exposed	New risk management framework being drafted to assist in more accurately identifying risks during 2017/18. Increased training to be provided across the council.

**Summary**

This statement provides an opinion on the level of assurance with regards to the Council's governance arrangements which enable stakeholders to be satisfied that proper arrangements are in place to govern spending and safeguarding of assets. The significant governance issues identified will be addressed on an ongoing basis to further enhance the governance arrangements. The evaluation on the effectiveness of arrangements provides assurance that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.