

## **Annual Governance Statement 2017/18**

### **Scope of Responsibility**

North East Derbyshire 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. The 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, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and for facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

North East Derbyshire District Council 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 Framework 2016 edition*. This Statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015 which requires all relevant bodies to prepare an Annual Governance Statement.

### **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled, together with those activities through which it accounts to, engages with and leads the local 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 North East Derbyshire District Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at North East Derbyshire District Council throughout the year ended 31 March 2018 and up to the date of the approval of the Statement of Accounts.

### **The Governance Framework**

The key components of the systems and processes that comprise the Council's governance arrangements include the following:

North East Derbyshire District Council sets out its objectives within its Corporate Plan which is linked to both the Community Strategy, and to a range of other supporting

Strategies and Plans. The Council has a formal constitution in place which sets out the roles and responsibilities of both Members and Senior Managers. The Constitution is available on the Council's website and is reviewed on an on-going basis. Policy and decision making is by means of a Cabinet Structure with Cabinet Member Portfolio holders. There are 4 Scrutiny Committees one of which is the Audit and Corporate Governance Scrutiny Committee operating in line with CIPFA guidance which provides independent challenge and assurance regarding financial governance and risk management. The Council also has a Standards Committee which has responsibility for overseeing the operation of the Members Code of Conduct.

North East Derbyshire takes a number of steps to help ensure compliance with established policies, procedures, laws and regulations. There is a corporate induction process, with a range of awareness raising and training events being provided for both employees and Members. All staff have access to the key policies and procedures which are readily accessible on the intranet site. Formal Codes of Conduct are in operation for both Members and Officers. The Council has adopted a formal Anti Fraud and Corruption Policy characterised by zero tolerance, with this approach informing the Council's governance and internal control arrangements. To support these high standards of openness and probity the Council has in place an effective complaints policy and procedures, an anti-fraud strategy, and a whistle blowing policy. It complies with the Transparency agenda and Freedom of Information obligations. There is an appropriately qualified and experienced Data Protection Officer in post.

The District Council has a Risk Management Strategy and associated framework in place, which is reviewed on a regular basis. The Portfolio Member for Economy and Finance is the Member Champion, with independent assurance provided on an ongoing basis by the Audit and Corporate Governance Committee. The Council has embedded Risk Management by ensuring the provision of appropriate training, by regular reviews of the Strategic Risk Register, by incorporating the Service Risk Registers within the Service Planning process, and by requiring that all Committee Reports include a Risk assessment with all projects having a Project Risk Register. The Risk Management Framework includes quarterly reporting which is integrated with our Performance and Financial management arrangements.

North East Derbyshire District Council has a number of mechanisms in place for ensuring the economical, effective and efficient use of resources, and to ensure that we secure continuous improvement in the manner in which our functions are exercised in order to comply with the requirement to provide best value. Effective use of resources is ensured by a robust range of mechanisms including consultation with local residents and other stakeholders, a well developed corporate and service planning process, by the careful consideration of service performance and development in order to ensure that our services are targeted at addressing priority requirements. Economy and Efficiency are ensured by the adoption of good procurement practice, and by services which are responsive to customer requirements and operated in line with good practice.

A Scheme of Delegation sets out the powers of Senior Officers and Members, including that of the Council's statutory officers while the Financial Regulations and Contract Procedure Rules form an integral part of the Constitution. The performance against budget is monitored on an ongoing basis with cost centre managers having

access to the financial ledger, and the accountancy team providing monitoring reports on a monthly basis. This is intended to ensure that any significant budget variances are identified at the earliest opportunity. Formal monitoring reports are taken to Cabinet and to the Audit and Corporate Governance Committee on a quarterly basis.

Performance Management is at the core of our managerial arrangements with quarterly reports being provided to Cabinet. The Council monitors progress against a range of performance targets which incorporate both national and local priorities. The quality of the data which underpins the Council's performance management framework is independently assured by Internal Audit. Performance Targets together with key operational priorities are set out within the Corporate Performance Management Framework and supporting Service Plans. These in turn are linked to the Council's Corporate Plan and supporting Plans and Strategies in order to help ensure that our resources are utilised for the achievement of agreed priorities.

The District Council contributes to the delivery of the Community Strategy for our residents through the Corporate Plan and the range of associated Plans and Strategies. The Council updates its Strategic Service Planning Framework on a regular basis and reports publicly to ensure our residents are kept informed regarding the progress on those issues which they view to be critical to the wellbeing of our community. Reports which are available to residents include Cabinet and Scrutiny Papers which are available on the website, articles in the Council's newsletter 'The News' which is distributed three times a year, briefings to the local press, public consultation meetings and through the Citizens Panel. Progress against the Council's key priorities is reported to Cabinet on a quarterly basis as part of the suite of Performance reports.

The District Council, working with our local community and key partners has agreed a vision and core values which are supported by a range of 4 corporate priorities which were set out within the Council's Corporate Plan for 2015 to 2019 as follows:

- Unlocking our **Growth** Potential;
- Supporting our **Communities** to be Healthier, Safer, Cleaner and Greener;
- Providing our **Customers** with Excellent Services ;
- **Transforming** our Organisation

These priorities provide a focus for the development of partnership working, delivery of our services, and for planned improvements and rationalisation of the services which are currently provided. The emphasis on progressing these priorities is illustrated by the fact that all reports to Committee set out which of the Corporate Priorities they are seeking to promote, while the Council undertakes an ongoing review of its services through the service planning process and by the review processes which include Performance Management by Cabinet and the work of the Scrutiny function.

## **Review of Effectiveness**

North East Derbyshire District Council has responsibility for conducting on at least an annual basis a review of the effectiveness of its governance framework including the system of internal control which is achieved primarily by way of the preparation of this Annual Governance Statement. This helps validate that our Governance Framework

has ensured compliance with the law, identifies that policies and procedures are effective and expenditure is lawful. The review of effectiveness is informed by the work of the Directors and Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment, the annual report of the Head of the Internal Audit Consortium, and also by the conclusions and recommendations made by the external auditors, and other review agencies and inspectorates.

The Chief Financial Officer is responsible for ensuring that there is an adequate and effective system of internal control of both the Council's accounting and its other systems of internal control as required by the Accounts and Audit Regulations 2015. As required by the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016) the Chief Financial Officer is professionally qualified, reports directly to the Chief Executive, is a full member of the Corporate Management Team and is supported by appropriately qualified and experienced staff.

The arrangements for the provision of internal audit are set out within the Council's Financial Regulations which are part of the Council's Constitution. The internal audit provision has from the 1st April 2007 been independently managed by the Internal Audit Consortium Manager. This is an arrangement for the provision of Internal Audit on a consortium basis by Bolsover, Chesterfield and North East Derbyshire, with the service being hosted by Chesterfield Borough Council on behalf of the three authorities. The Council's Internal Audit function has been internally assessed as being compliant with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013. The Council operates its internal audit arrangements in line with the requirements set out within the CIPFA Statement on the Role of the Head of Internal Audit (2010). The Internal Audit Consortium Manager is professionally qualified, suitably experienced, reports on a regular basis to the Audit Committee, with unrestricted access to both elected members and management. The work undertaken is agreed within the Audit Plan prepared by the Consortium Manager which is prioritised in order to reflect the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management.

Internal Audit work involves reviews of the main financial systems, scheduled visits to Council establishments and fraud investigations. The annual work plan is discussed and agreed with the Council's Section 151 officer, and with the Audit Committee. It is also shared with KPMG the Council's external auditor. This is part of a process of liaison intended to ensure that the work of internal and external audit is complementary and that duplication is avoided. The Internal Audit reports which arise out of the process include an assessment of the adequacy of internal control, and set out recommendations which are aimed at addressing those areas where potential for improvement has been identified. These are submitted to the relevant officers within the Council who are required to implement accepted recommendations. The outcome of the process is reviewed by the Chief Financial Officer, by the Council's Strategic Alliance Management Team (SAMT) and by the Audit Committee.

The Internal Audit Consortium Manager is responsible for the delivery of an annual audit opinion that can be used by the council to inform its governance system. The

annual opinion concludes on the overall adequacy and effectiveness of the organisations framework of Governance, risk management and control.

In her opinion reasonable assurance can be provided on the overall adequacy and effectiveness of the council's framework for governance, risk management and control for the year ended 2017/18. There are no qualifications to this opinion.

Assurance can never be absolute. In this context "reasonable assurance" means that arrangements are in place to manage key risks and to meet good governance principles, but there are a few areas where improvements are required. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

The Council's review of the effectiveness of the system of internal control is informed by:

- There is a Constitution in place which provides a formal Governance framework, with decisions taken in an open and accountable fashion. Internally, those decisions are subject to Scrutiny, and the Council has an active Standards Committee;
- The Council has suitably qualified, trained and experienced officers undertaking the statutory roles of Head of Paid service (Chief Executive), Monitoring Officer and Section 151 Officer.
- Assurances from the responsible Executive Directors based on management and performance information, officer assurance statements, Scrutiny reports and the outcome of internal reviews including those looking at joint services.
- The work undertaken by the Internal Audit Consortium during the course of the year;
- The work undertaken by the External Auditor as reported in their Annual Audit Letter and in the Report to those charged with Governance (ISA 260);
- This Annual Governance Statement has reviewed the operation of our Governance arrangements during the course of the 2016/17 financial year. In developing this Statement Officers have assessed the Council's arrangements against good practice.
- The Council's Audit Committee has undertaken a structured self-assessment to ensure it operates in line with CIPFA / SOLACE guidance.

In addition to assessing its own internal control mechanisms the Council has needed to assess the extent to which reliance can be placed upon the systems of Internal Control established and maintained by Rykneld Homes, its Arms Length Management Organisation for its housing stock. On the basis of the company's formal commitment to good governance, reports of external and internal audit, IIP accreditation and the on-going partnership between the Council and Rykneld Homes to manage performance and outcomes on behalf of tenants, the Council has come to the view that there are no significant governance issues in respect of Rykneld Homes.

While Rykneld Homes constitutes the Council's most significant partnership we actively participate in both D2N2 and the Sheffield City Region. The Council continues to play an active role within the D2N2 Local Economic Partnership (LEP) and remains a non constituent member of the Sheffield City Region Combined Authority. The Council's managerial and service delivery arrangements are dependent upon effective

partnership working with Bolsover District Council (the Council's Strategic Alliance Partner), while the Council works with Chesterfield Borough Council, Derbyshire Dales District Council and the Chesterfield Royal Hospital in the delivery of shared services. There are also a number of other arrangements with local organisations including a Derbyshire County Council and local Health bodies which support the Community Safety Team, Supporting People and Active and Healthy lifestyles where partnership working supports the delivery of services to local residents. Where the Council has entered into partnership arrangements it seeks to ensure that these promote the Council's vision and core values and that they are subject to appropriate governance and performance management arrangements. This assurance is provided by ensuring that the Council's involvement within partnership is formally agreed by Council and that the outcomes of partnership working are detailed in the Council's Performance, Finance and Risk Management Framework.

With effect from April 2011 the Council has operated within a Strategic Alliance with a neighbouring authority Bolsover District Council. Joint working arrangements have made significant progress and the two Councils now operate with a joint Management team down to third tier level. Joint working is now operational within most services, although only Environmental Health is operating on the basis of a fully shared service. While one of the key reasons for entering into this partnership is to achieve the efficiency savings that both Councils need to secure, the Strategic Alliance is also viewed as a key mechanism for managing risk including the maintenance of robust Internal Control arrangements.

The Council's External Auditors KPMG restricts their comments to the Published Accounts and as to whether the Council has made proper arrangements to secure Value for Money. The most recent review of the Council by external audit was provided by KPMG in its Annual Audit Letter relating to the 2016/17 Accounts. This letter which was reported to the Council meeting on 11<sup>th</sup> December 2017 gave an unqualified opinion in respect of both Value for Money and in respect of the published accounts.

### **Significant Governance Issues**

In the light of the above evidence it would seem reasonable to conclude that the Council has a robust system of governance and internal control in place that has operated throughout the 2017/18 financial year. As part of the Annual Governance Statement, however, the Council is required to review its internal controls in order to identify those significant areas where it needs to improve its arrangements in respect of governance, performance and the management of services. A consideration of the reports raised by External Inspections, Peer Reviews and the Council's own self assessment of its current position in respect of those areas requiring improvement are as follows:

With regard to the issues identified in the previous Annual Governance Statement (2016/17) the Council has continued to effectively manage its budget position and concerns in respect of marginal internal audit reports have been successfully resolved. On the basis of the progress made in addressing the issues identified in the previous Annual Governance Statement it seems reasonable to conclude that the Council's current arrangements are effective in addressing governance and performance issues.

	<b>Issue Identified</b>	<b>Action to Address</b>
1.	<p>Although the Council's budget is balanced over the period of the Medium Term Financial Plan that is on the basis of securing significant efficiency savings, amounting to £2m over the period to March 2022. Many of these efficiencies require the active management of significant levels of change against a background of reducing staffing levels. If these efficiencies are not secured then the Council will be forced to reduce expenditure in a relatively uncontrolled fashion which will impact upon both the quality of services to local residents, and on the internal control environment.</p>	<p>The Council is currently developing a transformation programme which will include measures to deliver the efficiency gains necessary to operate within its underlying level of resources. This will include income generation and business re-design opportunities. The achievement of these efficiencies is monitored on a regular basis by Executive. While appropriate steps are being taken it needs to be recognised that the efficiency targets are challenging, in part are dependent upon partnership working and may require further reductions in staffing levels and budgets. In considering measures to maintain a robust financial position the Council needs to give careful consideration to the impact of such measures on services to local residents.</p>
2	<p>Failure of the Local Plan to progress to submission stage and to be found sound at independent examination.</p>	<p>The Council is at an advanced stage in preparation of the Local Plan. Public consultation on the main document was completed in April, with consultation on additional evidence base documents due to be finalised by 18<sup>th</sup> May 2018 with submission scheduled by the end of May. This stage has been reached through effective project management and maintenance of a risk log. The Council has successfully avoid Government intervention in the plan-making process by taking this approach and subject to the final outcome of consultation expects to submit the Plan to timetable. Once submitted the Plan will be at examination and in the hands of the independent Inspector, with timescales largely outside of the Council's control. The greatest risk to any Plan at this stage is that it could be found to be unsound on a point of law, or it fails to demonstrate that it has been positively prepared and is justified. The Council has taken all reasonable steps in the preparation of the Plan to ensure that</p>

		it is based on sound evidence and meets procedural and legal requirements. This has included taking external legal advice, securing an advisory visit with the Planning Inspectorate and engaging consultants to critically review the Publication Draft Plan.
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We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. In particular we will take action to ensure that necessary improvements in our Internal Control arrangements are secured. 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.

Signed:

Graham Baxter  
Leader of the Council

Daniel Swaine  
Chief Executive