

AUDIT COMMITTEE25 September 2014ANNUAL GOVERNANCE STATEMENT 2013/14REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

AUD086: Corporate Governance Report & Annual Governance Statement
2013/14, 26 June 2014

AUD096: Accounts Payable, 26 June 2014

EXECUTIVE SUMMARY:

The Annual Governance Statement was considered by the Audit Committee in June and approved for publication with the draft pre-audit Statement of Accounts.

In accordance with the statutory requirements, final audited accounts are to be published by 30 September and are being considered elsewhere on this agenda.

The Annual Governance Statement to be published alongside the accounts in the Annual Financial Report has been updated and is being presented for the Audit Committee's further consideration and approval.

RECOMMENDATIONS:

That the Audit Committee:

1. Approve the updated Annual Governance Statement.

AUDIT COMMITTEE

25 SEPTEMBER 2014

ANNUAL GOVERNANCE STATEMENT 2013/14

REPORT OF CHIEF FINANCE OFFICER

1. Introduction

- 1.1. The Annual Governance Statement (AGS) has been updated since the Audit Committee considered the first draft in June, reflecting changes arising from; the Audit Committee discussion, the review by External Auditors, and management updates.
- 1.2. The detail of the changes made is provided below and the fully updated Statement is appended.

2. Updates

- 2.1. The Audit Committee considered the AGS for the financial year 2013/14 in June, and requested that an additional item be added in the September version regarding raising the profile of communication and engagement. The following has been added in Section 5:

Issue

Consultation and engagement

Action to be taken

Seek to embed best practice of consultation and engagement across all areas of the Council including engaging with residents to aid their understanding of the Council's major projects.

Progress/comments

Roles in Communications Team being developed to provide broader mix of relevant skills in keeping with requirements, changes will take effect from autumn 2014. Programme Management arrangements being developed to provide reassurance that communication is embedded in each project plan, revised protocol to be issued autumn 2014, with relevant training/briefing.

- 2.2. The Audit Committee received a report in June on control weaknesses identified in the Accounts Payable process. There were also weaknesses identified in the Main Accounting Internal Audit report. These issues and the actions being taken to address them have now been reflected in the AGS as follows:

Issue

Internal Audit Issues Arising

Action to be taken

Accounts Payable and main accounting internal audit management actions to be resourced and implemented as a priority, in accordance with the timescales set out in the respective audit reports.

Progress/comments

Work is on-going to ensure effective controls are in place over key processes.

- 2.3. The Council's external auditors, Ernst & Young, have commented on the Council's Annual Governance Statement and requested that, in addition to the above, the AGS reflects explicitly how the role of the Council's section 151 officer compares to the CIPFA recommendations for the role. The wording in section 3 has been amended as follows:

From:

The Council has appointed the Chief Finance Officer as the Section 151 officer with the statutory responsibility for the proper administration of the Council's financial affairs. CIPFA/SOLACE advise that the Chief Finance Officer should report directly to the Chief Executive and be a member of the Leadership Team; of equivalent status to other members. The Chief Finance Officer became a member of the Corporate Management Team with effect from 1 April 2013.

To:

The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'. The Chief Financial Officer ("CFO") is professionally qualified, is a key member of the Council's Management Team and reports to the Chief Executive. The CFO is involved in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the longer-term financial strategy.

The CFO advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

- 2.4 The opportunity has also been taken to update the Progress/Comments section on Silver Hill to reflect the latest position.

From:

Henderson have proposed revisions to the consented scheme to improve design and commercial prospects. Subject to obtaining the necessary consents, start on site could be achieved by January 2015.

To:

Henderson have proposed revisions to the consented scheme to improve design and commercial prospects. Cabinet approval to the next stage was given under the Development Agreement on 6 August 2014. The planning applications are now subject to public consultation and are due to be considered by the Planning Committee on 10 November. An application by Councillor Gottlieb for leave to apply for judicial review of the Cabinet decision was made on 9 September 2014 and will be defended by the Council. Subject to Henderson obtaining

the necessary consents, start on site could be achieved by January 2015.

3. Approval

- 3.1. The updated Annual Governance Statement is appended and the Audit Committee are asked to confirm their endorsement of this, prior to it being signed by the Chief Executive and the Leader of the Council.

OTHER CONSIDERATIONS:

4. COMMUNITY STRATEGY and PORTFOLIO PLANS (RELEVANCE TO):

- 4.1. Good corporate governance supports the achievement of the objectives of the Community Strategy and portfolio plans.

5. RESOURCE IMPLICATIONS:

- 5.1. There are no direct additional implications.

6. BACKGROUND DOCUMENTS:

None

APPENDICES

Appendix 1: Updated Annual Governance Statement 2013/14

ANNUAL GOVERNANCE STATEMENT 2013/14

1. Scope of Responsibility

Winchester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Winchester City 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, Winchester City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Winchester City 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*.

This Statement explains how Winchester City Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the review of its system of internal control in accordance with best practice, and that the review be reported in an Annual Governance Statement.

2. The Purpose of the Governance Framework

The purpose of the governance framework is to ensure that the authority directs and controls its activities in a way that meets standards of good governance and is accountable to the community. It does this by putting in place an organisational culture and values which drive a responsible approach to the management of public resources, supported by appropriate systems and processes, and ensuring that these work effectively. It works with the Council's Performance Management Framework to ensure that the Council has in place strategic objectives reflecting the needs of the community and is monitoring the achievement of these objectives through 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 Winchester City 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 Winchester City Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts for the 2013/14 financial year.

3. The Governance Framework

The core principles of good governance are:-

- Focusing on the purpose of the authority and on outcomes for the local community and creating and implementing a vision for the local area.
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managed risk.
- Developing the capacity and capability of Members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

The Council's Performance Management Framework translates the needs of the community and requirements of Government, into cost effective local services designed to deliver the shared vision for the District (economic prosperity, a high quality environment and active communities) and meet statutory requirements.

The Council engages with its communities through a number of mechanisms, including community planning, consultation events, surveys and campaigns relating to specific initiatives. Building on the views expressed and evidence of needs and future trends, the Council has worked with partner organisations to agree a shared vision and set of aims and outcomes for the District that is documented in the Winchester District Community Strategy 2010 – 2020, as revised at Cabinet on 4 December 2013 (Report CAB2533 refers).

The Council's Community Strategy is supplemented by more detailed information on the key projects and programmes of work that the authority will be delivering during the year – with actions to achieve priority outcomes set out in the Portfolio Plans. More detailed business and service plans are drawn up by Council Teams, with targets set for individual members of staff through the annual appraisal process. This process also looks at the development and training needs of staff, with a programme of training then put in place to meet these needs.

Progress against Portfolio Plans and budgets is monitored regularly by the Corporate Management Team, the Performance Management Team, Senior Managers and Portfolio Holders. The Overview and Scrutiny Committee receives reports focusing on delivery of key projects and programmes of work and drawing attention to other

areas where progress is exceeding, or falling short of targets. Portfolio Holders also monitor progress in delivery.

The Council's performance management arrangements are regularly reviewed and were further developed in 2013/14 to better demonstrate progress against delivering the outcomes in the Winchester District Community Strategy and the Council's Portfolio Plans (report OS94 – Performance Management Framework, 17 February 2014 refers). The National Performance Framework has been fully embedded in the Council's reporting mechanisms. The Council has an officer Performance Management Team to monitor and direct monthly financial performance, service performance, progress on key corporate projects and risk management and to oversee the implementation of recommendations from Internal Audit reports.

The Council publishes an Annual Financial Report (incorporating the Statement of Accounts) annually within the statutory timescales. The Annual Financial Report incorporates the full requirements of best practice guidance in relation to corporate governance, risk management and internal control.

The Council is subject to independent audit by Ernst and Young and receives an Annual Audit Letter reporting on findings. The Council supplements this work with the Southern Internal Audit Partnership and ad hoc external peer reviews. The Audit Committee undertakes the core functions as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*.

The Council's Constitution explains existing policy making and delegation procedures and the matters which must be dealt with by the full Council. It documents the role and responsibilities of Cabinet, portfolio holders, each committee and members and officers. The Council has approved a protocol governing relationships between Members and Officers as part of its Constitution and has adopted codes of conduct for both Officers and Members which facilitate the promotion, communication and embedding of proper standards of behaviour. Officers have job descriptions and there are clearly defined schemes of delegation, all of which are reviewed from time to time.

The Council's Constitution incorporates clear guidelines to ensure that business is dealt with in an open manner except in circumstances when issues should be kept confidential. Meetings are open to the public except where personal or confidential matters are being discussed. All Cabinet /committee agendas, minutes and portfolio holder decisions are published promptly on the Council's website. In addition, senior officers of the Council can make some decisions under delegated authority. The over-arching policy of the Council is decided by the full Council. The Overview and Scrutiny Committee and Audit Committee hold Portfolio Holders to account for delivery of the Council's policy framework within the agreed budget, and protocols are in place for any departure from this to be properly examined.

Staff awareness training has been undertaken to ensure that the Council complies adequately with the provisions of the Data Protection and Freedom of Information Acts, and Equality requirements.

The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'. The Chief Financial Officer ("CFO") is professionally qualified, is a key member of the Council's Corporate Management Team and

reports to the Chief Executive. The CFO is involved in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the longer-term financial strategy.

The CFO advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

The Chief Finance Officer is also a member of the Council's Performance Management Team alongside the Chief Executive, Corporate Directors and Assistant Directors.

The Council has appointed the Chief Operating Officer as the statutory "Monitoring Officer" and has procedures to ensure that the Monitoring Officer is aware of any issues which may have legal implications.

All Cabinet reports are reviewed by the Chief Finance Officer and Monitoring Officer. All reports to Cabinet are required to demonstrate how the matter links to the Council's Community Strategy and Portfolio Plans, and highlight resource implications. Officers are also asked to draw out risk, equality, sustainability, management and legal issues as appropriate. Similar procedures are in place for the Scrutiny and Regulatory Committees.

The Council has whistle-blowing and anti-fraud and corruption policies. It has a formal complaints procedure and seeks to address and learn from complaints. The Council's Standards Committee deals with complaints relating to the conduct of Members.

Members' induction training is undertaken after each election. Members receive regular updates and training on developments in local government.

4. Review of Effectiveness

Winchester City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements includes wide input:-

INPUTS TO THE ANNUAL GOVERNANCE STATEMENT



- **Managers and staff** have responsibility for the development and maintenance of a sound governance environment.
- **Elected members** are collectively responsible for the governance of the Council and the full Council is responsible for agreeing the Constitution, policy framework and budget.
- **Southern Internal Audit Partnership's** remit includes the Council's entire control environment. The Head of the Southern Internal Audit Partnership takes account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives. The Internal Audit Plan is based on the Corporate Risks Register and identifies Internal Audit's contribution to the review of the effectiveness of the control environment. The process includes reports to the Audit Committee on progress of audits. Regular summaries are also produced of the outcome of each audit, together with reviews of whether agreed recommendations have been implemented.

Internal Audit provides an annual opinion on the internal control environment and issues that should be included in this Statement.

Part of this review process is an annual review report by the Head of Southern Internal Audit Partnership of the effectiveness of the Council's internal audit function. In the light of feedback we have concluded that internal audit is an effective part of the Council's governance arrangements.

- **External Audit** provides an Annual Audit Letter, which includes a review of the Council's Annual Governance Statement and internal controls.
- **Corporate Directors, Assistant Directors and Heads of Teams** complete annual statements of assurance and implement action plans identified as a part of this process.
- **The Monitoring Officer** has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are followed. He also reviews this Statement. Amendments to the Constitution are considered by Cabinet, the Leader, The Overview and Scrutiny Committee, the Standards Committee and Council from time to time as required to reflect managerial and operational changes.
- An officer **Performance Management Team** is responsible for deploying risk management across the Council and the risk assessment of emerging issues, in addition to monitoring progress against Business Plans and budgets.
- An officer **Governance Group** co-ordinates the preparation of this statement and recommends the statement to the Corporate Management Team. The Group monitors compliance in the risk management arrangements and keeps the self-assessment of governance based on the Code of Corporate Governance under review.
- **The Corporate Management Team** reviews this statement and regularly deals with setting policy for risk management. It has a role in setting the culture and values, agreeing the Governance Framework, and implementing the framework throughout all its work.
- **The Audit Committee** monitors the internal control environment through receipt of audit reports and this Statement, and keeps an overview of arrangements for risk management. It also approves this Statement and the Statement of Accounts.

- The **Cabinet** manages risk in making operational and governance decisions together with proposing and implementing the policy framework, budget and key strategies.
- The **Leader and Chief Executive** review and sign this Statement on behalf of the Council.

5. Current Issues

There are a number of issues identified which significantly impact on the 2013/14 and / or future financial years. The Council has also stated how it plans to address them and the following plans have been integrated into the Council's performance management arrangements.

Issue	Action to be taken	Progress / Comments
Asset Management	Maintain an up to date Asset Management Plan and ensure that financial aspects of the Council's fixed assets are appropriately incorporated into the financial planning process, taking account the possible impact of the current economic situation and of opportunities to encourage regeneration through the use of the Council's property portfolio.	<p>Significant capital expenditure was incurred on projects during 2013/14. The new Depot was completed which will release the old site for redevelopment. The Council has recently undertaken renovation/ conversion works at Abbey Mill which has been let as a restaurant to River Cottage. An agreement for lease has been concluded for Avalon House with Southern Health NHS Trust and the Council's improvement works commenced in June 2014. The Council has also contracted to purchase County Council land near the Winchester station which together with the adjacent City Council car park will provide an opportunity for a major redevelopment.</p> <p>Earmarked reserves have been increased to fund future planned expenditure. However there are still some future capital requirements that will need funding to be identified including the River Park Leisure Centre and City Offices. This will be considered further during 2014/15.</p>

Issue	Action to be taken	Progress / Comments
Setting and achieving priorities within the context of reducing resources for local government.	<p>Continued improvement in consultation on Council priorities/budget, for 2013/14 based on the refresh of the Community Strategy.</p> <p>Improvement of links between corporate and departmental business planning, aligning departmental business plans to priority outcomes derived from the Sustainable Community Strategy over a five year period.</p>	<p>The Finance and Organisational Development Portfolio Plan for 2014/15 sets out the key actions which include:</p> <ul style="list-style-type: none"> -Strengthen the financial resilience of the Council by building further on the principles established in the Asset Management Plan; -Develop a savings and income plan to balance the medium term forecast deficit position; and - Develop the Council's Treasury Management Strategy to support the Council's increased capital spending requirements, with an acceptable level of risk.
Partnership arrangements	Continue to develop partnership arrangements where there is an efficiency or improvement led case for doing so.	<p>A number of delivery partnerships are in place to help realise priority outcomes, for example the Community Safety Partnership, Health & Wellbeing Partnership, and Housing Forum.</p> <p>The Council continues to develop a range of partnership and shared services projects including:</p> <ul style="list-style-type: none"> - Housing services - Fully Integrated Merger of Museums services <p>Shared services already in place include IT, Revenues, Environmental Services, Internal Audit and Learning and Development.</p>

Issue	Action to be taken	Progress / Comments
Housing Finance	<p>Implementing the consequential changes to the Housing Revenue Account and the Treasury Management procedures, of the Government's Housing Finance Reform effective from 1 April 2013.</p> <p>Delivering the Council's new homes programme.</p>	<p>The Council took on debt and paid £157.6m to the Government in March 2012 in accordance with the requirements of housing finance reform.</p> <p>Treasury management procedures for the management of the cash flow and the debt are under further development.</p> <p>Preparations are being made for accounting changes for depreciation and componentisation.</p>
Capacity	<p>Ensure capacity to deliver priorities.</p> <p>More effective use of officer capacity through agile working.</p> <p>Effective Flexible Resource Management to achieve target savings.</p> <p>Developing a robust approach to Programme Management.</p>	<p>Performance Management Team leads in monitoring progress with key projects and managing capacity to ensure delivery of priorities.</p> <p>The <i>1-team</i> approach to staff deployment continues to assist with directing staff resource to priority areas.</p> <p>The Major Projects Team is supporting the prioritisation of resources for the Council's significant projects.</p>

Issue	Action to be taken	Progress / Comments
Silver Hill	To work with the Council's development partner TIAA Henderson Real Estate to progress the scheme.	<p>Henderson have proposed revisions to the consented scheme to improve design and commercial prospects. Cabinet approval to the next stage was given under the Development Agreement on 6 August 2014.</p> <p>The planning applications are now subject to public consultation and are due to be considered by the Planning Committee on 10 November.</p> <p>An application by Councillor Gottlieb for leave to apply for judicial review of the Cabinet decision was made on 9 September 2014 and will be defended by the Council. Subject to Henderson obtaining the necessary consents, start on site could be achieved by January 2015.</p>

Issue	Action to be taken	Progress / Comments
Changes to Governance Arrangements	To input into the Local Government Boundary Commission review to reflect the Council's aspiration for its future governance arrangements and to continue to implement the Council's own improvements to its decision making arrangements.	Input into the Review, Stage 1 July 2014 Stage 2 Oct/Nov 2014 Changes made to the Council's Constitution in 2013/14 to streamline decision making need to be embedded in 2014/15.
Performance and Risk Management	Respond appropriately to recommendations included in recent Internal Audit report on Performance and Risk Management.	Work is underway to embed the performance arrangements as set out in the recently approved Performance Management Framework across the Council. Risk workshops to allow for the updating of operational, project and partnership risks to be held with risk owners during the summer of 2014.
Recruitment and Retention	Analyse the workforce profile and monitor trends to develop a revised Workforce Strategy and detailed plans to ensure that the Council has the right people with the right skills at the right time.	Work is on going to review the Workforce Strategy and refresh it to meet future needs. A review of the Pay and Reward profile of the Council is establishing the current position with in the employment market and assessing future requirements. Developing detailed plans to address any specific areas of concern.

Issue	Action to be taken	Progress / Comments
Consultation and engagement	Seek to embed best practice of consultation and engagement across all areas of the Council including engaging with residents to aid their understanding of the Council's major projects.	Roles in Communications Team being developed to provide broader mix of relevant skills in keeping with requirements, changes will take effect from autumn 2014. Programme Management arrangements being developed to provide reassurance that communication is embedded in each project plan, revised protocol to be issued autumn 2014, with relevant training/briefing.
Internal Audit Issues Arising.	Accounts Payable and main accounting internal audit management actions to be resourced and implemented as a priority, in accordance with the timescales set out in the respective audit reports.	Work is on-going to ensure effective controls are in place over key processes.

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 during the year and as part of our next annual review.

Signed:

Simon Eden
Chief Executive
Winchester City Council

Dated:

Signed:

Councillor R. Humby
Leader of the Council
Winchester City Council

Dated: