
ANNUAL GOVERNANCE STATEMENT 2016/17

Report by Chief Executive

AUDIT AND RISK COMMITTEE

28 March 2017

1 PURPOSE AND SUMMARY

- 1.1 This report proposes that the Audit and Risk Committee considers and approves the Annual Governance Statement that will be published in the Statement of Accounts 2016/17 of Scottish Borders Council.**
- 1.2 The CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.
- 1.3 Part of the Audit and Risk Committee's remit is to assess the effectiveness of internal controls, risk management, and governance arrangements. This includes to 'Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives'¹.
- 1.4 The Annual Governance Statement 2016/17 at Appendix 1 details the Governance Framework, including the key elements of the Council's governance arrangements, the Review of Framework outlining the annual review process and overall opinion, and further Improvement Areas.
- 1.5 In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound. The Annual Governance Statement is informed by the self-assessment of compliance against the Local Code by the officer Governance Self-Assessment Working Group, the work of Internal Audit, External Audit and Inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. The SBC Annual Governance Statement 2016/17 will be published in Report and Accounts.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Risk Committee considers the details of the Annual Governance Statement at Appendix 1, and approves the actions identified by Management to improve internal controls and governance arrangements.**

¹ CIPFA guidance note for local authorities 'Audit Committees' (2013)
Audit and Risk Committee 28 March 2017

3 BACKGROUND

- 3.1 Scottish Borders 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 approved a revised local code of corporate governance (Local Code) on 19 May 2016 to reflect the strategic developments and changes to governance, consistent with the principles and requirements of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' (2007).
- 3.2 A new 'CIPFA/SOLACE Framework' was published in Spring 2016 to ensure it remains fit for purpose, which applies to Annual Governance Statements prepared for the financial year 2016/17 onwards, and associated guidance for Scottish Authorities was published in November 2016. The revised Framework defines the seven core principles of good governance.
- 3.3 The Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 3.4 Part of the Audit and Risk Committee's remit is to assess the effectiveness of internal controls, risk management, and governance arrangements in place and this includes to 'Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives'².

4 ANNUAL GOVERNANCE STATEMENT

- 4.1 In January and February 2017 the officer Governance Self-Assessment Working Group (the 'Group') undertook the annual self-assessment of the effectiveness of internal control and governance arrangements and compliance against the Local Code for the year ended 31 March 2017. The Chief Officer Audit & Risk led on this process as part of HIA³ role to be champion for sound governance.
- 4.2 The Group has considered examples of evidence such as systems, processes and documentation to demonstrate local compliance with the 2016 'Framework's' seven core principles of good governance, supporting principles and a range of specific requirements (with a particular focus on the two new governance principles). The Group has evaluated progress with implementation of actions regarding previously identified improvement areas of governance.
- 4.3 The Group concluded that revisions are required to the Local Code to ensure it reflects the changing context of Scottish Borders Council, and complies with the new Framework that includes two new governance principles. This is subject to a separate report for approval by the Council post May 2017.
- 4.4 The Annual Governance Statement 2016/17 at Appendix 1 sets out the Governance Framework including the key elements of the Council's governance arrangements as set out in the Local Code, the annual Review of Framework undertaken, overall opinion, and Improvement Areas of Governance required to ensure full compliance with the Local Code and best practice.

² CIPFA guidance note for local authorities 'Audit Committees' (2013)

³ CIPFA 'the role of the head of internal audit in public service organisations' (2010)

- 4.5 In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound. The Annual Governance Statement is informed by the self-assessment of compliance against the Local Code by the officer Governance Self-Assessment Working Group, the work of Internal Audit, External Audit and Inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. The Council's Annual Governance Statement 2016/17 will be published in the Scottish Borders Council Annual Report and Statement of Accounts 2016/17.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications arising from this report.

5.2 Risk and Mitigations

The Annual Governance Statement 2016/17 details areas where additional work would further enhance the internal control environment, or improve risk management, and corporate governance arrangements.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

5.4 Acting Sustainably

Core principle of good governance "C. Defining outcomes in terms of sustainable economic, social, and environmental benefits" is included within the new CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' (2016). The officer Governance Self-Assessment Working Group considered examples of evidence such as systems, processes and documentation to demonstrate local compliance with all the 2016 'Framework's' seven core principles of good governance, supporting principles and a range of specific requirements.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

This report does not relate to a new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 The Corporate Management Team has been engaged in the governance annual assurance process 2016/17 and has been consulted on the report and appendix and any comments received have been incorporated into the report.
- 6.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Human Resources, and the Clerk to the Council have been consulted on the report and appendix and any comments received have been incorporated into the report.

Approved by

Chief Executive, Tracey Logan

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036

Background Papers: CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'; Scottish Borders Council Local Code of Corporate Governance

Previous Minute Reference: Scottish Borders Council 19 May 2016; Audit and Risk Committee 9 May 2016

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Annual Governance Statement 2016/17

Introduction

Scottish Borders 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. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of Scottish Borders Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

A new 'CIPFA/SOLACE Framework' was published in Spring 2016 to ensure it remains fit for purpose, which applies to Annual Governance Statements prepared for the financial year 2016/17 onwards, and associated guidance for Scottish Authorities was published in November 2016. The overall aim of the Framework is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The revised 'Framework' defines the seven (previously six in 2007) core principles of good governance, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Revisions were required to the Council's Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the new CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) and the supporting guidance notes for Scottish authorities. This will be presented to Council in due course for approval and a copy of the Local Code of Corporate Governance will be published on the Council's website.

This Annual Governance Statement explains how the Council has complied with the terms of the new CIPFA/SOLACE Framework (2016) for the year ended 31 March 2017. The statement also covers relevant governance issues as they affect those entities included as part of the Council's Group Accounts.

The Governance Framework

The Council's Local Code of Corporate Governance sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The key elements of the Council's governance arrangements as set out in the Local Code include:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in procedural standing orders, scheme of administration, scheme of delegation, and financial regulations which are regularly reviewed and revised where appropriate.

Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. An annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.

The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Professional advice on the discharge of statutory social work duties is provided to the Council by the Chief Social Work Officer (CSWO). The CSWO promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc.

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.

Unless confidential, decisions made by Council, the Executive Committee or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users. The Scottish Borders CPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council has a Single Outcome Agreement (SOA) in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council's Corporate Plan and the SOA which are approved by Council. The SOA will be replaced by the Local Outcomes Improvement Plan (October 2017) underpinned by Locality Plans.

Asset management planning (which is under development) and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision.

Equalities as well as environmental and rural implications are considered during the decision making process to promote fair access to services.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Decision makers receive objective analysis of a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options.

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.

The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Vision, Values and Standards within Corporate Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The corporate management structure consists of the Chief Executive, two Depute Chief Executives and ten Service Directors (in place during the year but subject to change commencing 2017/18). The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance review and development (PRD) process.

The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.

The Elected Members Development Programme includes the comprehensive Induction programme which is periodically supplemented by additional training. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

F. Managing risks and performance through robust internal control and strong public financial management

The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Scrutiny Committee for reviewing policy decisions.

The Council has a risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.

The Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.

The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.

A Medium Term Financial Strategy, and associated Risk Register, and plans for revenue (5-year) and capital (10-year) based on corporate priorities are developed, led by the Corporate Management Team, and presented for approval by Council in February each year, along with the Corporate Transformation Programme proposals.

Revenue and Capital Budget Monitoring reports are presented to the Executive Committee on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Chief Officer Audit & Risk (Chief Audit Executive) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house Internal Audit team in conformance with the Public Sector Internal Audit Standards.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council carries out an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Risk Committee whose role includes high level oversight of the Council's governance, risk management, and internal control arrangements.

The review was informed by the work of an officer Governance Self-Assessment Working Group which undertook an annual self-assessment against the Council's Local Code of Corporate Governance consistent with the principles and recommendations of the new CIPFA/SOLACE Framework (2016). This group has responsibility for monitoring compliance with the Local Code and making recommendations to ensure continuous improvement of the systems in place.

The review was also informed by assurances from: the Depute Chief Executives and Service Directors, who have responsibility for the development and maintenance of the governance environment within their departments and services and who in turn identify actions to improve governance at a departmental level; the Chief Officer Audit & Risk's annual report on the work of Internal Audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance; and comments made by External Auditors and other external scrutiny bodies and inspection agencies.

The conclusion from the review activity outlined above is that in 2016/17 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective, and are consistent with the principles and recommendations of the new CIPFA/SOLACE Framework (2016).

Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where further improvement in governance arrangements can be made to enhance compliance with the Local Code:

- 1) In light of the on-going significant challenges in addressing cost pressures and responding to the changes in government funding: (i) complete remaining service people planning and succession planning to enable the Council's Strategic People Plan to be developed; (ii) ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's corporate plan and priorities thus managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available; and (iii) continue to monitor governance of arms-length external organisations (ALEOs).
- 2) On-going monitoring and review of the Performance Management Framework to ensure it informs improvement activity and decision making. This will include the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, acting as a focus for evidencing value for money in service provision and linked to financial, people and business planning.
- 3) The Council's decision to implement the new Business World ERP System from April 2017 means that there will be a requirement to review and agree amended Financial Regulations, policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations.
- 4) Review and possible reshaping of the Corporate Transformation Programme and consistent application across all the activity of the demonstrated key success factors including the robust definition of Business Case and Benefits, Return on Investment, Programme and Change Management, and Risk Management to ensure there is confidence in the delivery of improvements and savings to enable delivery of efficient and effective services to customers in a sustainable way.
- 5) Further actions to ensure comprehensive data and information management across the Council and within each department in all relevant aspects of service delivery through appropriate awareness of and adherence to procedures, practices and guidelines to ensure full compliance with legislation and regulations, both current and planned.
- 6) Continue to improve the reporting arrangements to: (i) Evidence that learning from complaints is taking place and SPSO decisions are being reported to elected members; and (ii) Expand the volume of compliments and other comments, to gather a wide range of feedback from service users, and ensure these are reflected alongside the arrangements in place for dealing with complaints.

- 7) Development and implementation of standardised framework for reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future, comply with community empowerment principles, and meet locality needs and priorities, and for enhancing on-going delivery of capital programmes and projects linked to the corporate priorities.

These actions to enhance the governance arrangements in 2017/18 are incorporated where appropriate within the Council's service directorate business plans and their implementation and operation will be driven and monitored by the Corporate Management Team in order to inform the next annual review. Internal Audit work planned in 2017/18 is designed to test improvements and compliance.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council's systems of internal control and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in all significant respects.

Tracey Logan
Chief Executive
mm 2017

Councillor David Parker
Leader of the Council
mm 2017