

South Hams District Council Annual Governance Statement 2016 – 2017

1. Scope of Responsibility

South Hams District Council is responsible for ensuring that:

- its business is conducted in accordance with legal requirements and proper standards
- public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

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

In discharging this overall responsibility, South Hams District Council is also responsible for ensuring that there is a sound system of governance (incorporating the system of internal control) and maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk. A Statutory Officers' Panel was set up in 2015-16 and a key role of this Panel is strategic risk management.

South Hams District Council and West Devon Borough Council have been shared services partners since 2007. As two of the very first Councils to share a Chief Executive in 2007, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation.

In early 2015 a completely new leadership team were appointed to lead the organisation through the transformation programme, become more customer-focused, save money, and explore ways of generating income for the Council. The Councils are now led by a small leadership team consisting of two Executive Directors and three Group Managers.

The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council set by Members. SLT are supported by an Extended Leadership Team (ELT). The ELT includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, and Support Services such as Finance, Legal, and Human Resources.

The Council's Community of Practice Lead for Finance is the officer with statutory responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

The S.151 Officer, who acts as the Chief Financial Officer (CFO), will have responsibility for the administration of the financial affairs of the Council; will contribute to the corporate management of the Council, in particular through the provision of professional financial advice; will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity, and budget and policy framework issues to all Members and will support and advise Members and officers in their respective roles; and, will provide financial information to the media, Members of the public and the community. (Constitution Article 10)

The CFO leads the promotion of good financial management including through the provision and publication of Financial and Contract Procedure Rules. The Council's S.151 Officer is a qualified accountant.

A review of the Council's arrangements against the CIPFA guidance on the Role of the Chief Finance Officer in Local Government has concluded that the recommended criteria have been met in all areas.

2. The Purpose of the Governance Framework

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost-effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risks 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 the 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 was in place at South Hams District Council for the year ended 31 March 2017 and is expected to continue up to the date of approval of the Accounts by the Audit Committee. The Chartered Institute of Public Finance and Accountancy (CIPFA) have identified six principles (key elements) of corporate governance that underpin the effective governance of all local authorities. South Hams District Council has used these principles when assessing the adequacy of its governance arrangements. The main items that contribute to these key elements are listed below:

Core principle/key element 1: focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

- The Council's policies, aims and objectives are well established and monitored at various levels, for example forward plans, annual service planning process and personal development reviews
- The Council's adopted Priorities are confirmed in Article 6 of the Constitution and are published on the Council's website
- In March 2016 the Overview and Scrutiny Panel and the Executive considered the 'Our Plan: South Hams' which is a single strategic document that sets out the vision, objectives and activities of the Council. It brings together all strategies and plans and sets out a comprehensive story of what the Council wants to achieve through two blended and inter-related elements;
 - i) The corporate plan establishing the Council's vision, objectives, priorities, actions and delivery approaches and
 - ii) The Local Plan establishing land use planning policies and allocations – the Council's work on the Joint Local Plan between Plymouth City, South Hams and West Devon is described further below.

<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CIId=134&MIId=48&Ver=4>

Through 'Our Plan' we are striving to achieve communities that have access to housing, employment, services and facilities that meet their needs, communities that are resilient, safe and able to make choices about their future. Our communities are places where businesses can develop and grow. We want to ensure Our Plan makes a positive contribution to the equality, fairness and wellbeing of our communities.

The Our Plan Themes and Objectives are:-

Economy – Creating places for enterprise to thrive and business to grow
Homes – Enabling homes that meet the needs of all
Infrastructure – Securing the services and facilities that meet the needs of our communities
Communities – Empowering residents to create strong communities
Wellbeing – Supporting positive safe and healthy lifestyles
Environment – Protecting, conserving and enhancing our built and natural environment
Heritage – Celebrating our past and protecting our heritage for the future
Resources – Promoting energy efficiency and more effective use of our natural resources

In tandem, work has progressed to develop a Joint Local Plan between Plymouth City, South Hams and West Devon. Work on this Joint Plan is due to be submitted for examination by the Planning Inspectorate during the Summer of 2017; a key milestone for those wishing to progress their Neighbourhood Plans.

- All staff briefings undertaken by SLT articulate the vision and new ways of working;
- Regular consultation is undertaken on a range of issues;
- Effective budgetary monitoring takes place regularly and is reported quarterly to Members
- Cashable savings identified in the T18 programme have been realised
- Performance management and reporting is embedded including quarterly reporting to the Overview and Scrutiny Panel;
- Scrutiny teams have delivered tangible outcomes as highlighted in their Annual Report

Core principle/key element 2: members and officers working together to achieve a common purpose with clearly defined functions and roles

- The Council's T18 programme clearly identifies its priorities, goals and promises statement which exemplifies its vision and values
- Performance measures are linked to drivers, goals and the service/Council priorities and these have continued through 2015/16.
- The Council uses a suite of performance indicators that includes measurement of the quality of service. A 'Balanced Scorecard' system of regular reporting of the key indicators to the Senior Leadership Team (SLT) and Members (Overview and Scrutiny Panel) is in place.
- The Council is also instigating a new suite of performance management dashboards, which will give Members and management access to near real-time information on demand and service levels.
- The Council publishes a Medium Term Financial Strategy (MTFS) each year, which covers a five year period. That for the period 2017/18–2021/22 was approved by the Executive in September 2016 and has regard to the Priorities, business planning – pressures and savings
- There is a single organisation approach between Members and Officers
- The Council's Constitution clearly states the roles and responsibilities of Members and Senior Officers
- Terms of reference for Committees and Member responsibilities are clearly defined
- Clear delegations and accountabilities are laid down in the Constitution
- Officers are appointed with clear job descriptions
- Adoption of statutory and professional standards

- Compliance with Financial Procedure and Contract Procedure Rules that are reviewed and approved by the Council
- Appropriate segregation of duties and management supervision
- The role of the Chief Finance Officer (s151 Officer), as documented in the Constitution, has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and maintaining an effective system of internal financial control.
- The role of the Monitoring Officer (MO), as documented in the Constitution, has responsibility for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with.
- There is an annual process to review and agree the Pay Policy Statement in accordance with the Localism Act Section 38.

There are no significant issues to bring to the attention of the Audit Committee for non compliance with Contract or Financial Procedure Rules.

17 applications for exemptions to Contract / Financial Procedure Rules were received in 2016/17, all but one were accepted (with articulated reasons).

Core principle/key element 3: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- Staff assessed against a set of key behaviours (known as 'IMPACT') to establish the right values and culture
- The Council's whistle-blowing policy, known as the Confidential Reporting Policy, is available to all staff on the Council's Intranet (including Frequently Asked Questions) and is also publicised internally on an occasional basis to maintain its profile. It was last reviewed and adopted in July 2016.
- The Council's Constitution also defines the roles of Members and officers. Part 5 of the Constitution includes a Protocol on Councillor / Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted Members of Council bodies in their dealings with officers where appropriate.
- There are codes of conduct in place for Members and Officers which include arrangements for registering interests and managing conflicts of interest. This is being reviewed.
 - The Overview and Scrutiny Panel is responsible for overseeing the Members' Code of Conduct and good governance by Members, and its terms of reference are set out in the Constitution
 - There is an effective Audit Committee in place with clear terms of reference.

Core principle/key element 4: taking informed and transparent decisions which are subject to effective scrutiny and management of risk

Following the Boundary Review and the local elections, 2015/16 was the first year for the new 31 Member Council. To coincide with the reduction in Members, a new governance structure was implemented whereby all 31 Members served on one of either: the Executive; the Overview and Scrutiny Panel, or the Development Management Committee. Other notable changes were that the Executive membership was reduced from eight to six and the number of Overview and Scrutiny Panels was reduced from three to one.

With regard to the Executive portfolio areas, these were no longer linked to service areas, but were each now aligned to a representative of the Council's Senior Leadership Team.

- Members on the Overview and Scrutiny Panel receive training on effective scrutiny practices
 - Decisions taken are formally minuted
 - Committee Members are aligned to service areas and regularly communicate with and provide strategic direction to the relevant SLT lead
 - The formal management of risk is in place and subject to monitoring by the Senior Leadership Team and reporting to the Audit Committee.
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- A Statutory Officers' Panel which meets quarterly has been set up comprising of the Head of Paid Service, Chief Finance Officer and the Monitoring Officer with other key officers invited as appropriate. This Panel amalgamates the former Probity Group, Risk Management Group and Governance Group, and its key roles are to ensure that the Councils comply with, and manage:

Governance frameworks
Strategic risk management, and
Regulatory framework

The Statutory Officers' Panel has important links with the Audit Committee and the Overview & Scrutiny Panel. It has a rolling programme of works which are set out in a Forward Plan.

- A separate risk register is maintained for the T18 Transformation Programme.
- Active health and safety arrangements, including a robust policy, reviewed and approved by members, regular consideration of issues at SLT.

- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Quarterly budget monitoring reports are presented to the Executive.
- Active performance management arrangements
- A robust complaints/ compliments procedure is in place and is widely publicised, with the Ombudsman's Annual Report being reported to the Overview and Scrutiny Panel
- Freedom of Information requests are dealt with in accordance with established protocols
- All committee reports include reference where relevant to the potential impact on the Council's priorities and community plan themes, and address as appropriate any financial, staffing, risk, legal and property implications, and are monitored by appropriate senior officers (including the S151 Officer and the Monitoring Officer).

Core principle/key element 5: developing the capacity and capability of members and officers to be effective

- An induction programme is in place for Officers and Members
- A Member training and development programme is in operation
- Deputy s151 and Monitoring Officers in place
- Officer training programmes are considered at each Staff Appraisal
- Focused training is delivered on specific issues (e.g. complaints, data protection)
- An ELT leadership development programme was commenced to enhance senior officer skills in this regard.
- A staff survey was carried out to gauge employee satisfaction and assist in improving the organisation for employees as a place to work and consequently improve how the organisation performs.

Core principle/key element 6: engaging with local people and other stakeholders to ensure robust public accountability

- Our Plan was considered by Members in March 2016
- There is regular community engagement and participation both in general and for specific community groups and services provided, for example, Parish Councils
- Committee and Council meetings are open to the public, with papers available in advance on the internet (save where 'exempt' under the Local Government Act 1972 following formal evaluation of the public interest)

1. Process for maintaining and reviewing effectiveness of the Council's Governance arrangements

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This responsibility is in practice carried out by Senior Managers, with the Executive Director informing the Executive of any significant matters warranting their attention. The Council ensures the delivery of services in accordance with Council policies and budgets, which includes long term financial planning, good financial management and ensuring up to date risk management across the Council. The Overview and Scrutiny Panel is responsible for performing a review function which in 2016/17 included specific work on;

- Review of Fees and Charges 2017/18
- Medium Term Financial Strategy for the five year period 2017/18 to 2021/22
- Budget Proposals 2017/18 (Revenue and Capital Budget Proposals)
- Review of Case Management function
- Dartmouth Lower Ferry – Tariff Review
- Planning Peer Challenge Review 2016/17
- Review of South Hams Permits
- Sherford Development
- Joint SH/WD Economy Member Working Group Findings and Delivery Plan
- Parking arrangements for Vehicle Tax-Exempt Motorists
- Community Safety Partnership
- Transitional Resources Monitoring Report
- Local Service Performance
- Disabled Facilities Grants
- Beach Water Safety
- Ombudsman Annual Review Letter 2016
- Devon and Cornwall Housing – Annual Update
- Empty Homes Strategy
- Street Naming and Numbering Briefing paper
- Quarterly Performance Measures
- Task and Finish Group Updates
 - Dartmouth Lower Ferry
 - Partnerships
 - Waste and Recycling
 - Events Policy
 - Permits Review

The Overview and Scrutiny Panel continue to review and scrutinise the Council's performance monitoring reports via T18 programme against the Council's corporate strategy and quarterly performance indicator reports.

In addition, the Committee also considered agenda items related to the attendance of representatives from the following external agencies/partners:

- South Devon and Torbay Clinical Commissioning Group
- NEW (Northern, Eastern, Western) Devon Clinical Commissioning Group

The Audit Committee

The Audit Committee has a specific role in relation to the Council's financial affairs including the internal and external audit functions and monitors the internal workings of the Council (broadly defined as 'governance'). It is responsible for making sure that the Council operates in accordance with the law and laid down procedures and is accountable to the community for the spending of public money. The Audit Committee will provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by managers who have responsibility for the development and maintenance of the internal control environment; and also by comments made by external auditors and other review agencies/inspectors.

Internal Audit

South Ham's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2011. This responsibility is delegated to the Community of Practice Finance lead and S151 Officer.

The Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources. All audit reports go to the Senior Leadership Team who agree any recommendations. Members receive an annual report of internal audit activity and approve the annual audit plan for the forthcoming year.

The Internal Audit annual report for 2016/17 is also due to be considered by the Audit Committee on 22 June 2017. The report contains the Head of Internal Audit's Opinion which is that "Based on the work performed during 2016/17 and that of their experience from previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework. This view forms part of the Annual Governance Statement for 2016/17.

Senior Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls. This is done on a checklist covering the following areas: Council objectives and service plans, staffing issues, corporate procedure documents, service specific procedures, risk management, performance management and data quality, and action on independent recommendations.

External auditors and other review agencies/inspectors

Our external auditors (KPMG) have issued their 'Audit progress' letter dated 9 June 2017 on the outcome of the planning and control evaluation phases of their audit. This was to ensure that, in line with good practice, that any significant matters are reported to those charged with governance in a timely manner. Their letter states their audit work has gone smoothly and that they have not identified any significant issues. However KPMG did identify one non-significant control deficiency. This related to the fact that the completion of monthly benefit payment checks by officers was not being documented so as to evidence their completion.

The key messages from KPMG's External Audit report for 2015/16 (presented to the Audit Committee on 22nd September 2016) were as follows:-

An unqualified audit opinion on the Accounts was issued by 30 September 2016. KPMG's audit of the Accounts did not identify any material misstatements to the Council's Accounts and they agreed a number of minor presentational and disclosure changes to the supporting notes to the Accounts.

No significant issues arose as a result of their work on the allocation of shared costs or the provision for business rates appeals.

The KPMG report stated that the Council has good processes in place for the production of the accounts and good quality supporting working papers.

Value for Money (VFM) audit conclusion – KPMG concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. An unqualified VFM conclusion was issued by 30 September 2016.

Significant Governance Issues

The following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

Issues and action plan from the Compliance Review of the Code of Corporate Governance

Principle 1: Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area:

Issue Identified	Action to be Taken	Responsible Officer
<p>T18 Transformation Programme</p> <p>South Hams District Council and West Devon Borough Council have undertaken innovative plans to transform the way the Councils carry out their work, casting aside the traditional ways of local government. Long-established Council departments have been replaced by customer-focussed teams of officers who work out of the office and more within the community. The Councils have invested in the latest technology and the Councils' workforce is smaller, reducing the need for office accommodation, and all staff roles have changed. The introduction of a new IT system whilst at the same time the Council's workforce having been reduced by 30%, has meant that performance in some key areas has been below that which should be expected.</p> <p>On 16th June 2016 the Executive considered a report on Transitional Resources. The Executive have recommended to Council (on 30th June) to approve the re-investment of £0.5 million of T18 savings and new homes bonus funding, to fund the transitional staffing resources set out in the report.</p>	<p>Monitoring reports on Performance and transitional resources are presented to the Council's Overview and Scrutiny Panel.</p> <p>The T18 risk register is reviewed quarterly as a minimum by the Senior Leadership Team (SLT) and Programme Board, and is presented to the Audit Committee every six months. This will continue for the duration of the programme.</p> <p>The Council's Head of Paid Service and Group Manager have regular weekly meetings with the IT software supplier.</p> <p>Transitional Resources Report to Executive (16/6/16) and Council (30/6/16)</p> <p>Monitored by a group of officers – Transitional Improvement Board</p>	<p>Senior Leadership Team S.151 Officer Monitoring Officer Internal Audit Manager</p> <p>Timescale in line with the Programme.</p> <p>Audit Committee</p> <p>Transitional Improvement Board</p>

Issues and action plan from the System of Internal Control:

The system of internal control is described in section 2 above.

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><i>Financial Uncertainty</i></p> <p>As Local Authorities experience reductions in funding, although South Hams District Council currently has a balanced budget, we must continue to review spending and monitor financial plans in order to balance future budgets in the face of the further government funding reductions.</p> <p>A Medium Term Financial Strategy (MTFS) was presented to the Executive in September 2016 setting out the current position and was regularly updated throughout the 2017-18 Budget Setting process.</p> <p>There is still more to be done but the Council is establishing a solid base from which to become more commercial in its approach to meeting the forecast budget gap of £0.6 million by 2020/2021, whilst protecting its much valued services.</p> <p>The next MTFS is due to be presented to Members in July 2017. The Council has commenced several initiatives that aim to help us to reduce our costs and meet the challenge of a significant funding gap.</p>	<p>Other initiatives in progress include:</p> <ul style="list-style-type: none"> • Income generation initiatives • Commercial property investment strategy • Exploring the concept of creating one single Council with West Devon Borough Council to extend the current shared services partnership • Business Rates Pilot • Strategic Asset Review 	<p>Senior Leadership Team S151 Officer On-Going</p> <p>Reports to Council at the end of July 2017</p>

Issue Identified	Action to be Taken	Responsible Officer and Target Date
<p>Business Rates Appeals Provision</p> <p>The way that Councils receive income from Business Rates changed from 1 April 2013. Business Rates retention was introduced to enable authorities to be able to retain a share of any growth that is generated in Business Rates revenue in their areas. The business rate retention scheme allows authorities to voluntarily form a business rates retention pool.</p> <p>The membership of the Devon Pool consisted of all Devon District Councils, Devon County Council, Torbay Unitary and Plymouth Unitary.</p> <p>The Valuation Office provided a list of outstanding appeals for the Council, and these were taken account of when completing the government return NNDR3 for 2015/16 (section relating to business rates appeals provision).</p> <p>There was uncertainty and risk surrounding the calculation of the business rates appeals provision as future events may affect the amount required to settle an obligation.</p> <p>The Council took external specialist advice on the accounting for its appeals provision for 2015/16 and also engaged with the Council's external auditors (KPMG) in early discussion on the subject.</p>	<p>The Council took a decision to withdraw from the Devonwide Business Rates Pool for 2015/16, due to the risk of some large Business Rates appeals.</p> <p>The significant business rates appeal was settled in March 2017 and the Council has reflected that fact in its Collection Fund Account for 2016/17 and notified its preceptors. This will mean in 2016/17 that the appeals provision reduces from £29 million to £1.9 million (the SHDC share of this reduces from £11.6 million to £0.8 million). This will be shown in the Council's Accounts for 2016/17.</p>	<p>S151 Officer Publish 16/17 Accounts June 2017</p>

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p>Joint Local Plan</p> <p>A key responsibility of the Council is to maintain an up to date development plan.</p> <p>The Joint Local Plan prepared in conjunction with West Devon and Plymouth Councils sets out a strategy and detailed policies that establish a framework to steer housing and employment development to the most sustainable locations and to guide decisions on planning applications.</p> <p>A Joint Member Steering Group is in place to ensure that key decisions needing to be made are taken back to the individual Local Authorities.</p>	<p>The Joint Local Plan will be the subject of an examination by the Planning Inspectorate in Autumn 2017 (following a public engagement event) with the intention to adopt in the year 2017/18.</p>	<p>Executive Director (Strategy & Commissioning)</p> <p>Adopt in the year 2017/18</p>
<p>Internal and External Audit Reports</p> <p>Some issues have been identified in audit reports by the Council's shared in-house internal audit team and the Council's external auditor, KPMG.</p> <p>Individually the recommendations do not impact on the wider system of internal control, but action plans for remedial action have been agreed where appropriate.</p>	<p>All remedial actions detailed in external and internal audit reports will be completed in line with the agreed timescales. These actions will be monitored by the auditors' 'follow up' procedures.</p>	<p>Extended Leadership Team (ELT) S151 Officer Internal Audit Manager In line with agreed timescales</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

**Cllr R Tucker
Leader of South Hams District Council**

Signed:

**Steve Jordan
Executive Director (Strategy and Commissioning)
and Head of Paid Service, on behalf of South Hams
District Council**

Date:

To be inserted