

FALKIRK COUNCIL

Subject: ANNUAL GOVERNANCE STATEMENT 2013/14
Meeting: AUDIT COMMITTEE
Date: 23 June 2014
Author: CHIEF EXECUTIVE

1. INTRODUCTION

- 1.1 The purpose of this paper is to advise Members of arrangements for reporting on the Council's governance framework for the year ended 31 March 2014 and to seek approval of a draft Annual Governance Statement for inclusion in the Council's 2013/14 Annual Accounts.

2. GOVERNANCE ARRANGEMENTS AND GUIDANCE

- 2.1 In 2007 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) jointly issued guidance entitled 'Delivering Good Governance in Local Government'. This defined the six principles that should underpin the governance of each local government body, namely:

- focussing on the purpose of the Authority and outcomes for the 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 managing risk;
- developing the capacity and capability of Officers and Members to be effective; and
- engaging with local people and other stakeholders to ensure robust public accountability.

- 2.2 The guidance recommends that Authorities prepare an Annual Governance Statement (the Statement) based on a review of their own arrangements.

- 2.3 An Annual Governance Statement has been included in the Council's Annual Accounts since 2008/09 and I attach, at **Appendix 1**, a draft Statement for the year to 31 March 2014. The Statement is structured around the above six

principles, and includes a separate section on the Council's system of internal financial control, as well as a number of areas for improvement over the coming year.

- 2.4 Following consideration by Committee, the Statement requires to be signed by the Leader of the Council and Chief Executive, and will be published with the Council's 2013/14 Annual Accounts.

3. RECOMMENDATIONS

3.1 Members are invited to:

- 3.1.1 note this report on the Council's governance arrangements;**
- 3.1.2 review and approve the draft Annual Governance Statement; and**
- 3.1.3 note that the Annual Governance Statement will form part of the Council's 2013/14 Annual Accounts.**

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Chief Executive

Date: 13 June 2014

Falkirk Council
Annual Governance Statement – 2013/2014

Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to secure best value and ensure continuous improvement in the services it delivers. Public money must be used economically, efficiently, and effectively, and with due regard to the achievement of sustainability. To help ensure that these responsibilities are met, the Council must put in place, and apply, robust governance arrangements.
2. Responsibility for ensuring good governance is shared by all Council employees and elected Members. To demonstrate the Council's commitment to good governance, this Annual Governance Statement (the Statement) has been prepared on the basis of the principles set out in the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government*'. This defines governance as doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner. Fundamentally, this relates to the way the Council is directed and controlled, and through which it engages with the community¹
3. Preparation of this Statement meets the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Falkirk Council's Governance Framework

4. The following sections summarise the key elements of Falkirk Council's governance framework, set out within the context of each of the CIPFA / SOLACE Principles.

Principle 1 - Focusing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area

5. The Falkirk Council area continues to change for the better. Over the course of 2013/14 the commencement of work on the innovative Tax Incremental Finance scheme, which will improve our infrastructure and attract business to the area, and the successful global launch of the Kelpies, are two very visible examples of the area's commitment to self improvement despite the continuing, difficult, financial climate.
6. To give structure to that improvement, the Corporate Plan 2012-17, 'One Council One Plan', sets out the Council's vision and ambition; goals, outcomes, and priorities; and operational focus. The Corporate Plan is available on the Council's website (www.falkirk.gov.uk), and all Services have developed their own Plans building on these high level goals. The Corporate Plan continues to be underpinned by the 'Falkirk Area Strategic Community Plan 2010-15' and related 'Single Outcome Agreement 2013-15'.
7. There are, of course, risks and barriers to achieving the ambitious goals the Council has set itself. This is well understood, and the October 2013 approval by the Council's Executive Committee of a revised and updated Risk Management Policy and Framework facilitated a subsequent review of operational risk management arrangements. This has allowed managers to build a more comprehensive and prioritised picture of the risks faced by the Council, allowing these to be carefully managed in a pragmatic and proportionate way. Allied to that, the Corporate Risk Management Group has undertaken a detailed review of the Council's working group structure, rationalising this to ensure clarity of purpose and clear linkage to our Corporate Plan.
8. The Council continues to operate within a climate of financial constraint, and significant savings will be required in the coming years. Robust financial stewardship and managed use of reserves will be necessary to ensure that the impact on communities is minimised, and the need to allocate and use resources

¹ **NOTE:** any review of governance can provide only reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.

in a way that maximises their value is self evident. The Council has established a business transformation team to examine ways of improving service delivery, and the annual budget process continues to be developed and adapted to ensure that options are considered in an open, transparent, and inclusive way.

9. As in previous years, financial performance is reported publically via the Annual Report and Accounts (which are available on the Council's website).

Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles

10. Falkirk Council has a history of effective engagement between Officers and elected Members, based on clear Standing Orders comprising procedures for Committee meetings, a Scheme of Delegation to Committees and Officers, Contract Standing Orders, and Financial Regulations. All elements of Standing Orders have been reviewed and updated to take account of the revised decision making structure.

11. This structure has now been in place for around a year. There has been much debate over the course of that year in relation to the revised structure, and participation has not been universal. Clearly, participation across all political groups is desirable and, with that in mind, a reflective review of the revised structure is to be undertaken. Allied to that, the Council's appointed External Auditors, Audit Scotland, have raised their concerns around the sustainability of the current position and will continue to maintain a keen interest. Officers and Members will, in the coming months, require to work very closely and collaboratively to ensure that the outcomes of the review result in a stable and sustainable structure.

12. This is particularly important when considered in the wider context of the significantly changing environment within which the Council will operate over the course of 2014/15. The implications of Health and Social Care integration will be far reaching, both strategically and operationally, and will require effective and streamlined decision making. Similarly, the impacts of Welfare Reform continue to be felt by Council Members and Officers involved in implementing the changes and, more importantly, by the people of the Falkirk Council area. The need for Members and Officers to work effectively together, then, goes without saying.

13. The Council's Corporate Management Team (CMT), comprising Directors and Chief Officers, meets regularly throughout the year. CMT, and associated Departmental Management Teams, remain key to ensuring that resources are effectively directed towards delivering Council priorities and for helping the Council make informed, evidence based decisions. CMT recognises the need to streamline operational processes and practices, balancing service delivery and good internal control, while taking cognisance of the outputs of the Council's risk management framework.

Principle 3 - Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

14. The Council has a Code of Conduct for Members and Officers and all Members are expected to abide by the Standards Commission Scotland's Councillors' Code of Conduct. Protocols are in place setting out arrangements for governing Member / Officer Relations and all staff are required to comply with the ethical requirements of any professional bodies of which they are members. Fundamentally, all Officers and Members are required to demonstrate and maintain the appropriate levels of leadership and governance.

15. Registers of gifts and hospitality are in place, and staff are required to notify and record any extramural employment. A Confidential Reporting Policy / Procedure and an Anti-Fraud and Corruption Strategy are in place, and this Strategy will be updated during 2014/15. This will allow the requirements of the Bribery Act 2010, guidance from the Police Scotland Public Sector Counter Corruption Unit, and findings emerging from the Scottish Government's Cross Sector Counter Fraud Forum to be fully considered and reflected. The Council participates in the National Fraud Initiative, and Officers work closely with Police Scotland on the risks posed by Serious Organised Crime.

16. The Corporate Management Team continues to foster a culture of fraud awareness, prevention and detection, and relevant policies and procedures are clear on the disciplinary consequences arising from non-compliance. Over the course of 2014/15 detailed consideration will be given to the establishment of a team tasked with identifying and investigating non-benefit related fraud. The timing of this will dovetail with the

formation of the Department for Work and Pensions Single Fraud Investigation Service, and will add to the Council's level of fraud resilience.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

17. As mentioned at paragraph 7 above, much work was undertaken during 2013/14 to further develop the Council's risk management arrangements, building on training provided to all Service Unit Managers. The new Policy and Strategy provides a framework for managers and risks are considered as a matter of course as part of all strategic and operational decision making and Strategy / Policy development.

18. The risks associated with the emerging Health and Social Care integration picture will, for example, require to be carefully managed with partners, to ensure that the transition happens smoothly and in line with the required timescales. Similarly, the ongoing roll-out of Self Directed Support across the Social Work Service has required the application of sound risk and project management skills.

19. The Cabinet Office's requirement that all Local Authorities comply with the Public Services Network Code of Connectivity also necessitated careful management of risk. The Council successfully attained the required standard towards the end of 2013, with a further series of actions to be completed ahead of re-accreditation during 2014/15. The risks associated with non-compliance are serious, impacting on all Council Services, and it is crucial that appropriate resource and priority is allocated to the on-going re-accreditation process (building on the Technology Strategy approved by Executive Committee in March 2014).

20. Management of risk is also a key element of the Council's premises management arrangements, which aim to make our buildings a healthy and safe place for staff and visitors. These arrangements are now well understood, with annual statements of assurance considered by Corporate Risk Management Group.

21. Overarching responsibility for monitoring the adequacy of risk management arrangements (along with those for governance and control) rests with the Council's Audit Committee. The Committee is chaired by an external lay member and met four times during 2013/14. The Committee is now a well embedded element of the Council's governance structures and is effective in monitoring risk management, Internal and External Audit activity.

Principle 5 - Developing the capacity and capability of Officers and Members to be effective

22. The Council's Achievement and Professional Development Scheme allows staff to identify and work towards aims and objectives consistent with wider organisational goals. Professional staff are bound by the Continuing Professional Development requirements of their professional Institute and various Council Services have achieved accreditation with Investors in People. The Council is committed to the development of its staff, particularly at a time when the risk profile is changing and staff are undertaking different and more varied tasks.

23. Elected Members are able to access a 'Development Area' on the Council's Intranet. This includes various induction materials and links to online training designed to support Members throughout their term.

24. Staff are also able to access on-line training modules on various management and operational processes. Completion of training modules can be monitored and the on-line platform ensures that access to good quality training is far more widely available than via traditional face to face training (which is still provided where relevant).

Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability

25. Community participation and consultation is well embedded within Falkirk Council. Over the course of 2013/14 the Council has, for example, sought to engage on issues such as the Allocation of Council Housing, Welfare Reform and school transport, as well as undertaking a survey with young people in Bonnybridge. This complements feedback received via the existing Citizen's Panel, which has had another busy and productive year.

26. All consultation activity is available via the Council's website. The website also allows stakeholders to access Council Strategies and Policies, download Committee agendas and papers, and interact with the Council on-line (for example to pay Council Tax or Non-Domestic Rates, make a planning application, request a special uplift, etc). Over the course of 2013/14, Officers have been working on the development of a new website, using more modern technology to allow access across a wide range of devices. The new website will also be more intuitive and user friendly and will again increase the level of information and functionality available to stakeholders. The site will be launched during the summer of 2014 and will be updated and refreshed on an ongoing basis thereafter.

27. The Council has an active Twitter account, supporting the main website and acting as a source of 'live' information on, for example, travel, new initiatives and events to be held in the Falkirk area. Several schools also have their own Twitter accounts as a means of communicating with parents and carers.

Monitoring and Review of Governance Arrangements

28. Falkirk Council's governance arrangements are formally monitored via:

- the Committee framework, including the Audit Committee;
- Corporate and Departmental Management Teams;
- Corporate Risk Management Group and other Corporate Working Groups;
- Internal and External Audit work; and
- the work of Falkirk Council's Local Area Network.

29. This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, Strategic Community Plan, agreed Single Outcome Agreement and the fundamental statutory requirement to demonstrate and achieve best value.

System of Internal Financial Control

30. This section relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2014. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control. That said, it should be noted that the system of internal financial control can provide only reasonable (not absolute) assurance that: assets are safeguarded; transactions are authorised and properly recorded; and material errors or irregularities are either prevented or detected.

31. The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations and associated guidance; delegation and accountability; budgeting systems; clear financial targets; and robust management information.

32. The Council's Internal Audit Section provides an independent assessment of arrangements for risk management, governance and control. The Section undertakes an annual, risk based, programme of work approved by the Chief Executive, Chief Finance Officer and Audit Committee.

33. The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. An initial self assessment has been undertaken, demonstrating broad compliance with the Standards. In addition, the Council's appointed External Auditors, Audit Scotland, have undertaken an assessment of the adequacy of the Internal Audit function and concluded that they are able to place reliance on Internal Audit work.

34. All Internal Audit reports are issued to the relevant managers and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising, and recommendations which remain outstanding beyond their agreed implementation date, are brought to the attention of Audit Committee.

35. The Audit Committee operates in accordance with relevant CIPFA guidance. The Committee is chaired by an external lay member and has a remit to provide:

- independent assurance on the adequacy of the risk management framework and associated control environment;
- independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
- assurance that any issues arising from the process of drawing up, auditing and certifying the Annual Accounts are properly dealt with.

36. The Committee considers the Internal Audit Manager's Annual Assurance Report, which provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance and control. In his 2013/14 report, the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2014.

37. The Chief Finance Officer is required to review the effectiveness of the Council's systems of internal financial control, taking account of the work of managers, Internal Audit and External Audit. Based on his considerations, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems for the year to 31 March 2014.

38. In relation to other entities that fall within the Council's group boundary, the Chief Finance Officer's review is informed by the:

- Statement on the System of Internal Financial Control included within the Annual Accounts of Central Scotland Valuation Joint Board;
- Statements of Assurance from the Chief Executives of Falkirk Community Trust and Falkirk Community Stadium Limited; and
- work of these bodies' respective External Auditors (and, where relevant, Internal Auditors) and other interim reports.

39. Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems of other bodies falling within the Council's group boundary.

40. In undertaking his duties, and in forming the above opinions, the Chief Finance Officer worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Governance Arrangements – Areas for Improvement

41. Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates, means that there will always be scope for improvement. Areas that will be addressed over the coming year include:

- Officers and Members will review and reflect on the Council's revised decision making structure;
- senior managers will continue to plan for, and manage, the risks associated with Health and Social Care integration and Welfare Reform;
- the Council's Anti Fraud and Corruption Strategy will be updated and detailed consideration will be given to the establishment of a team tasked with identifying and investigating non-benefit related fraud;
- Public Services Network re-accreditation will be given the appropriate priority; and
- the re-development of the Council's website will be completed.

Conclusion

42. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2013/14 and the period to date. It highlights areas for improvement and is consistent with the Council's established improvement agenda.

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Councillor Craig Martin
Leader of Falkirk Council
23 June 2014

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Mary Pitcaithly
Chief Executive of Falkirk Council
23 June 2014