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21 June 2017

Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE COMMITTEE** will be held in the HMS Brave Room at these Offices on Thursday 29 June 2017 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Jemma Duffield on (01304) 872305 or by e-mail at jemma.duffield@dover.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jemma Duffield", written over a white background.

Chief Executive

Governance Committee Membership:

P G Heath(Chairman)
D Hannent (Vice-Chairman)
B W Butcher
P I Carter
M I Cosin
M R Eddy
S J Jones

AGENDA

1 **APOLOGIES**

To receive any apologies for absence.

2 **APPOINTMENT OF SUBSTITUTE MEMBERS**

To note appointments of Substitute Members.

3 **DECLARATIONS OF INTEREST** (Page 4)

To receive any declarations of interest from Members in respect of business to be transacted on the agenda.

4 **MINUTES**

To confirm the attached Minutes of the meeting of the Committee held on 6th April 2017 (to follow).

5 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 5 - 16)

To consider the attached report of the Head of Audit Partnership.

6 **ANNUAL INTERNAL AUDIT REPORT** (Pages 17 - 33)

To consider the attached report of the Head of Audit Partnership.

7 **PROGRESS REPORT AND UPDATE YEAR ENDED 31 MARCH 2017** (Pages 34 - 44)

To consider the attached report from Grant Thornton.

8 **TREASURY MANAGEMENT YEAR END REPORT** (Pages 45 - 59)

To consider the attached report of the Directory of Finance, Housing and Community.

9 **2016/17 ANNUAL GOVERNANCE ASSURANCE STATEMENT AND REVISED CORPORATE GOVERNANCE LOCAL CODE** (Pages 60 - 121)

To consider the attached report of the Director of Governance.

Access to Meetings and Information

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.
- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.
- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website www.dover.gov.uk. Minutes will be published on our website as soon as practicably possible after each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting.
- If you require any further information about the contents of this agenda or your right

to gain access to information held by the Council please contact Jemma Duffield, Democratic Support Officer, telephone: (01304) 872305 or email: jemma.duffield@dover.gov.uk for details.

Large print copies of this agenda can be supplied on request.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

Subject: **QUARTERLY INTERNAL AUDIT UPDATE REPORT**

Meeting and Date: **Governance Committee – 29th June 2017**

Report of: **Christine Parker – Head of Audit Partnership**

Decision Type: **Non-key**

Classification: **Unrestricted**

Purpose of the report: This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

Recommendation: That Members note the update report.

1. Summary

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

2. Introduction and Background

- 2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed.
- 2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.
- 2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.
- 2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Annex 2 to the EKAP report.
- 2.5 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

- 2.7 There have been three Internal Audit reports that have been completed during the period, of which two reviews were classified as providing Substantial assurance and one as Substantial/Reasonable Assurance.
- 2.8 In addition seven follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.

3 Resource Implications

- 3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2017-18 revenue budgets.

Appendices

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

Background Papers

- Internal Audit Annual Plan 2016-17 - Previously presented to and approved at the 24th March 2016 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership



INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP.

1. INTRODUCTION AND BACKGROUND

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level	No. of Recs.	
2.1	EKHR – Leavers	Substantial	C H M L	0 0 0 0
2.2	EKS – ICT Change Control	Substantial	C H M L	0 0 0 0
2.3	Planning Applications, Income and s106 Agreements	Substantial/ Reasonable	C H M L	0 3 4 0

2.1 EKHR – Leavers - Substantial Assurance

2.1.1 Audit Scope

To provide assurance that the internal controls and procedures are robust, in order to ensure that the Council correctly processes staff leaving to include accurate calculation of last pay including any outstanding holiday pay or debts to the Council and the issuing of the P45 documentation.

2.1.2 Summary of Findings

East Kent Human Resources (EKHR) is responsible for giving advice as required on the termination of employment and, the administration of all leavers across the partner authorities – Canterbury City Council (CCC), Dover District Council (DDC), East Kent Housing (EKH), EK Services (EKS) and Thanet District Council (TDC). Statistics below show the number of starters and leavers in 2015/16 and 2016/17 to date, which gives an indication of growth and/or reduction in the establishment and staff turnover rates:

Partner	No. of leavers	No. of	No. of leavers	No. of
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authority	2016/17 (at Jan 2017)	starters 2016/17 (at Jan 2017)	2015/16	starters 2015/16
CCC	172	160	116	99
DDC	28	29	58	64
EKH	23	10	17	24
EKS + TDC	116	94	121	106

Total staff and turnover:

Partner authority	Total no. of employees 2016/17 (at Jan 2017)	Average staff turnover %
CCC	608	28.3
DDC	343	8.2
EKH	180	12.8
EKS + TDC	827	14.0
Total	1958	

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

Managers are responsible for ensuring that the leaver process is followed correctly; information and advice is available to managers in the EKHR toolkit and HR can be contacted directly;

In the testing sample of 30 leavers, 96.7% of managers had completed a leaver notification form; 90% of email accounts had been closed at the time of the audit;

96.3% of available final payslips (26/27) had been calculated correctly;

100% of P45's processed by EKHR payroll had been issued accordingly (27/27).

2.2 EKS – ICT Change Control - Substantial Assurance

2.2.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services used in relation to change controls are sufficiently robust to safeguard the partner councils where new systems and upgrades are introduced.

2.2.2 Summary of Findings

EK Services undertake the ICT function for DDC, CCC, TDC and EKH. They have a Service Level Agreement (SLA) in place for ICT.

A common cause of system or security failures is inadequate control of changes to information processing facilities and systems. Formal management responsibilities and procedures should be in place to ensure satisfactory control of all changes.

Change control can be separated into three areas 'standard changes', 'normal changes' and 'emergency changes': -

Standard changes – changes to a service or to the IT infrastructure where the implementation process and the risks are known upfront. These changes should be managed according to policies that the IT Team should already have in place. Since these changes should be subject to established policies and procedures, they are the

easiest to prioritise and implement, and often don't require approval from a risk management perspective.

Normal changes – are those that should go through the change process before being approved and implemented, based on the risk category applied.

Software vendors issue patches to their software as errors are identified and corrected, and also to prevent security breaches as possible attackers develop new ways of breaking into computer systems. These may be issued as one off patches or a number may be grouped together as a service pack release. All patches should be downloaded and tested in a development environment. These tests should be documented and repeatable.

Emergency changes – arise when an unexpected error or threat occurs, such as a flaw in the infrastructure related to services and needs to be addressed immediately.

ICT systems change control is not directly linked to the corporate objectives of the partner councils however, efficient and effective ICT resources are key to them providing services.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Standards have been set and procedures are in place and followed.
- Policies are documented.
- Project management processes are in place for major upgrades, new system installations etc.
- Peer review and approval processes are in place where required.
- Role Based Access Controls and privileged user accounts are in place to manage access to process changes.
- Change requests, action taken, by whom and approval where required are recorded, providing a management trail; although this information is spread across three systems. The systems are generally cross referenced and ICT staff are able to locate documentation. There may be small benefits from recording all the information from the three systems in one place and this could be given consideration for the future. However, the current processes generally work well with no additional charges (i.e. software licences, maintenance etc.) being incurred.
- Third part access procedures are in place and controls are currently being strengthened under the new Network Access and Availability Policy.

2.3 Planning Applications, Income and s106 Agreements – Substantial/Reasonable Assurance.
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2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to:

Planning Applications and Income:

Ensure that planning application procedures, including those in respect of fees and collection of income, are in accordance with Statute, and the organisation's Standing Orders and Financial Regulations.

Section 106 Agreements:

Ensure that Section 106 agreements are used where appropriate in planning applications and that all legal requirements are adhered to. All income / benefits from the agreement are received and obligations imposed are complied with to the benefit of the district.

2.3.2 Summary of Findings

The Council's development management function is responsible for deciding whether a proposed development should be allowed. Most new buildings, major alterations to existing buildings and significant changes to the use of a building or piece of land need planning permission. Certain minor building works do not need planning permission as the effect on neighbours or the surrounding environment is minimal and in these instances they are classed as permitted development.

The level of planning applications and income over the past three years was as follows:

Income	2016/17 (as at 23.02.17)	2015/16	2014/15
Planning Application fees	£556,880	£797,040	£568,211
Pre Application Advice fees	£55,099	£43,861	£33,691
No. of applications received	947	900	836

There are 4 main performance indicators in place and currently in all 4 instances they are not meeting their targets, indeed for 3 of them the direction of travel is downwards. The Performance indicators are as follows

PI	Description	2016/17 Target	Q1	Q2	Q3	Current Cumulative Figure
PLA 002	% of major planning applications determined in 13 weeks (exc S106 agreements) or within an agreed extension of time or Planning Performance Agreement	60%	41%	36%	33%	35%
PLA 003	% of minor planning applications determined in 8 weeks (exc S106 agreements) or within an agreed extension of time or Planning Performance Agreement	65%	61%	72%	55%	61%
PLA 004	% of other planning applications determined in 8 weeks (exc S106 agreements) or within an agreed extension of time or Planning Performance Agreement	80%	72%	83%	75%	76%
PLA	The % of appeals against	20%	42%	50%	38%	44%

001	planning decisions which were successful for the applicant					
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Management can place Substantial Assurance on the monitoring of the financial obligations recorded in S106 agreements and the digital processes for customers and a Reasonable Assurance for the back office planning application function as the current working processes are seen as a best fit solution for the current Acolaid system that has become cumbersome and time consuming.

The primary findings giving rise to the Substantial and Reasonable Assurance opinions in this area is as shown below:

- Processes are now established for monitoring financial S106 agreements to ensure the funds are received and spent correctly. However the notification process to these officers could be improved. (see 1.5 below)
- S106 Agreements (that are known about) can now be easily identified on a GIS interactive map which links to the S106 Agreement in the planning portal.
- Regular monitoring of planning income is in place through the normal budget monitoring processes.
- Digital processes for customers ensure that they are able to submit applications through the planning portal and information is available to the public to view and comment online on all applications that have been submitted.

Scope for improvement was however identified in the following areas:

- The back office functions have not moved forward since the last audit was carried out two and a half years ago in reengineering its processes and going digital thus removing the need for paper files. It should be noted that the current working processes are seen as a best fit solution for the current Acolaid system that has become cumbersome and time consuming. With the implementation of the new Uniform system (project due to commence in December 2017) and the project team driving this forward there is the opportunity to move the back office function forward by reviewing the current working practices, ensuring that the current database is up to date before interfacing into Uniform and possibly streamlining processes whilst embracing the use of technology (i.e. use of tablets and apps) that will become available.
- There is also still a need to put in place a data retention policy which clearly states how long the various types of documentation should be kept or and this should be adhered to. This has been an ongoing issue that has not been addressed for several years. By implementing this it will have an impact on the amount of storage needed for paper files and now has a target date of 30th June 2017 for completion.
- There needs to be a notifying process put in place so that the Regeneration Delivery Team, Land Charges and any other applicable departments / teams (i.e Support team) are notified of Section 106 agreements that have been put in place. This could be done by email by Legal when they are drawn up or approve the Section 106 agreement or by the Team Leaders (Development Management) when they are signing off the application.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, seven follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	Grounds Maintenance	Limited	Reasonable	C	0	C	0
				H	4	H	0
				M	4	M	0
				L	0	L	0
b)	Museums and VIC	Substantial	Substantial	C	0	C	0
				H	2	H	0
				M	0	M	0
				L	0	L	0
c)	Business Continuity & Emergency Planning	Reasonable	Reasonable	C	0	C	0
				H	1	H	0
				M	2	M	1
				L	6	L	1
d)	Equality & Diversity	Reasonable	Substantial	C	0	C	0
				H	0	H	0
				M	3	M	0
				L	3	L	0
e)	Receipt and Opening of Tenders	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	0	M	0
				L	1	L	0
f)	EKS – Business Rate Reliefs	Reasonable	Substantial	C	0	C	0
				H	0	H	0
				M	3	M	0
				L	2	L	0
g)	EKS – Business Rate Credits	Reasonable	Reasonable	C	0	C	0
				H	2	H	0
				M	2	M	0
				L	0	L	0

- 3.2 Details of each of the individual high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Governance Committee.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK-IN-PROGRESS:

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Homelessness, CSO Compliance, Land Charges, Anti-Fraud & Corruption, Officers' Code of Conduct, Local Code of Corporate Governance, Port Health, Pollution and Contaminated Land, and Service Contract Monitoring.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2016-17 Audit plan was agreed by Members at the meeting of this Committee on 24th March 2016.
- 5.2 The Head of the Audit Partnership meets on a quarterly basis with the Section 151 Officer to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Annex 3.

6.0 FRAUD AND CORRUPTION:

- 6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

Attachments

Annex 1	Summary of High priority recommendations outstanding after follow-up.
Annex 2	Summary of services with Limited / No Assurances
Annex 3	Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1

Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<i>None to report this Quarter</i>		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
EKS – PCI DCC	September 2016	Limited	WIP
Playgrounds	December 2016	Limited	Spring 2017
Performance Management	March 2017	Reasonable/Limited	Summer 2017

Definition of Audit Assurance Statements & Recommendation Priorities

Assurance Statements:

Substantial Assurance - From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance - From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance - From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance - From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation’s ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

Subject:	ANNUAL INTERNAL AUDIT REPORT
Meeting and Date:	Governance Committee – 29th June 2017
Report of:	Christine Parker – Head of Audit Partnership
Decision Type:	Non-key
Classification:	Unrestricted

Purpose of the report: This report provides a summary of the work completed by the East Kent Audit Partnership together with details of the performance of the EKAP against its targets for the year ending 31st March 2017.

Recommendation: That Members note the report.

Internal Audit Annual Report 2016-17.

SUMMARY

The main points to note from the attached report are that the agreed programme of audits has been completed. The majority of reviews have given a substantial or reasonable assurance and there are no major areas of concern that would give rise to a qualified opinion.

1.0 INTRODUCTION

1.1 The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and effectiveness of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- Present a summary of the internal audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,
- Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.
- Comment on compliance with the Public Sector Internal Audit Standards (PSIAS), and report the results of the Internal Audit quality assurance programme.
- Confirm annually that EKAP is organisationally independent, whether there have been any resource limitations or instances of restricted access.

1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2016-17 for Dover District Council, and provides an overall assurance on the system for internal control based on the audit work undertaken throughout the year, in accordance with best practice. In providing this opinion, this report supports the Annual Governance Statement.

- 1.3 The internal audit team is proactive in providing guidance on procedures where particular issues are identified during audit reviews. The aim is to minimise the risk of loss to the Authority by securing adequate internal controls. Partnership working for the service has added the opportunity for the EKAP to share best practice across the four sites within the East Kent Cluster to help drive forward continuous service improvement.
- 1.4 During 2016-17 the EKAP delivered 97.91% of the agreed audit plan days, with 5.95 days under delivered to be adjusted for in 2017-18. The performance figures for the East Kent Audit Partnership as a whole for the year show good performance against targets, particularly as the EKAP has experienced staffing changes and delivered financial savings against its agreed budget to all its partners in the delivery of the service.

Background Papers

- **Internal Audit Annual Plan 2016-17 - Previously presented to and approved at the March 2015 Governance Committee meeting.**
- **Internal Audit working papers - Held by the East Kent Audit Partnership.**

Resource Implications

Having delivered a cost per audit day in 2016-17 of £294.47 against the budget cost of £326.61 this has resulted in a budgetary saving for Dover District Council of £8,675.80 against a target of 10%.

There are no other financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2016-17 budget.

Consultation Statement

Not Applicable.

Impact on Corporate Objectives and Corporate Risks

The recommendations arising from each individual internal audit review are designed to strengthen the Council's corporate governance arrangements, control framework, counter fraud arrangements and risk management arrangements, as well as contributing to the provision of economic, efficient and effective services to the residents of the District. This report summarises of the work of the East Kent Audit Partnership for the year 2016-17 in accordance with the Public Sector Internal Audit Standards.

Attachments

Annex A – East Kent Audit Partnership Annual Report 2016-17

CHRISTINE PARKER
Head of Audit Partnership

Annual Internal Audit Report for Dover District Council 2016-17

1. Introduction

The Public Sector Internal Audit Standard (PSIAS) defines internal audit as:

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the approved Audit Charter. The East Kent Audit Partnership (EKAP) aims to comply with the PSIAS, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council’s review of the system of internal control in operation throughout the year.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of members via the quarterly reports, and through this annual report if there are any issues outstanding at the year-end.

2. Objectives

The majority of reviews undertaken by Internal Audit are designed to provide assurance on the operation of the Council’s internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice. Other work undertaken, includes the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services for which they are responsible. The annual audit plan is informed by special investigations and anti-fraud work carried out as well as the risk management framework of the Council.

A key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners though its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each councils’ anti fraud and corruption system by acting as a deterrent to would be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service, and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through annual meetings. The shared arrangement for EKAP also secures organisational independence, which in turn assists EKAP in making conclusions about any resource limitations or ensuring there are no instances of restricted access

3. Internal Audit Performance Against Targets

3.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 7.2. Additional audit days have been provided via audit contractors in order to meet the planned workloads.

3.2 Performance against Targets

The EKAP is committed to continuous improvement and has various measures to ensure the service can strive to improve. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix 5.

3.3 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Deputy Head of Audit or the Head of the Audit Partnership; all of whom are Chartered Internal Auditors. In each case this includes a detailed examination of the working papers, action and review points, at each stage of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Deputy Head of Audit, regular meetings are held with the s.151 Officer. The minutes to these meetings provide additional evidence to the strategic management of the EKAP performance.

3.4 External Quality Assurance

The external auditors, Grant Thornton, conducted a review in February 2016 of the Internal Audit arrangements. They have concluded that, where possible, they can place reliance on the work of the EKAP.

3.5 Liaison between Internal Audit and External Audit.

Liaison with the audit managers from Grant Thornton for the partner authorities and the EKAP is undertaken largely via email to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Dover District Council. Consequently, the assurance, which follows is based on EKAP reviews of Dover District Council's services.

3.6 Compliance with Professional Standards

The EKAP self-assessment of the level of compliance against the Public Sector Internal Audit Standards shows that some actions are required to achieve full compliance which EKAP will continue to work towards. There is however, no appetite to pay for an External Quality Assessment of the EKAP's level of compliance, relying on a review by the s.151 officers of the self-assessment. Consequently the EKAP can only say that it partially conforms with PSIAS.

3.7 Financial Performance

Expenditure and recharges for year the 2016-17 are all in line with the Internal Audit cost centre hosted by Dover District Council. Financial management has delivered a cashable saving of 10% against budget.

Year	Cost / Audit Day
2006-07	£288
2007-08	£277
2008-09	£262 (Reserve Refunded to Partners)
2009-10	£281

2010-11	£268
2011-12	£257
2012.13	£279
2013-14	£290
2014-15	£287
2015-16	£293
2016-17	£294

The EKAP was formed to provide a resilient, professional service and therefore achieving financial savings was not the main driver, despite this considerable efficiencies have been gained through forming the partnership. The net result is a reduced EKAP cost per audit day below the original budget estimate.

4. Overview of Work Done

The original audit plan for 2016-17 included a total of 24 projects. We have communicated closely with the s.151 Officer, CMT and this Committee to ensure the projects actually undertaken continued to represent the best use of resources. As a result of this liaison some changes to the plan were agreed during the year. A few projects (5) have therefore been pushed back in the overall strategic plan, to permit some higher risk projects to come forward in the plan (4). The total number of projects undertaken in 2016-17 was 23, with 7 being WIP at the year end to be finalised in April.

Review of the Internal Control Environment

4.1 Risks

During 2016-17, 70 recommendations were made in the agreed final audit reports to Dover District Council. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
Critical	0	0%
High	21	30%
Medium	33	47%
Low	16	23%
TOTAL	70	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2016-17 the EKAP has raised and reported to the quarterly Governance Committee meetings 70 recommendations, and whilst 77% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

4.2 Assurances

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix 1 for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have

been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 23 pieces of work commissioned for Dover District Council over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	8	50%
Reasonable	6	38%
Limited	2	12%
No	0	0%
Work in Progress at Year-End	7	-
Not Applicable	0	-

* See list in the table below

NB: 'Not Applicable' is shown against special investigations or work commissioned by management that did not result in an assurance level.

Taken together 88% of the reviews account for substantial or reasonable assurance, whilst 12% of reviews placed a (partial) limited assurance to management on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance.

There were two reviews completed on behalf of East Kent Housing Ltd. one was a management request that did not attract an assurance and the other was Substantial Assurance. Information is provided in Appendix 3.

There were 16 reviews completed on behalf of EK Services and the assurances for these audits were - 5 Substantial, 4 Reasonable, 1 Limited, 2 Not Applicable and 4 work in progress at the year-end. Information is provided in Appendix 4.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. Those areas assessed as being as either 'limited' or 'no' assurance audit opinion during the year are detailed in the table at paragraph 6, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the Committee at the appropriate time.

4.3 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up/progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they have been successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit is tasked to perform one progress report per original audit and bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance Committee via the quarterly update report.

The results for the follow up activity for 2015-16 are set out below. The shift to the right in the third column in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2015-16.

Total Follow Ups undertaken 16	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	2	9	5
Revised Opinion	0	0	8	8

The reviews with an original limited assurance, together with the result of the follow up report, are shown in the following table:

Area Under Review	Original Assurance	Follow Up Result
VAT	Limited	Reasonable
Grounds Maintenance	Limited	Reasonable

East Kent Housing received three follow up reviews for which the revised assurance levels were one Substantial, one Reasonable and Housing Repairs remained at Limited assurance after follow up, this was escalated to the December 2016 audit committees.

EK Services received four follow ups; the revised assurances were Substantial for one review and Reasonable for three reviews.

Consequently, there are no fundamental issues of note arising from the audits and follow up undertaken in 2016-17. There are no DDC reviews showing a limited assurance after follow up.

4.4 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some responsive work was carried out during the year at the request of management, there were no fraud investigations conducted by the EKAP on behalf of Dover District Council.

4.5 Completion of Strategic Audit Plan

Appendix 2 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations or management requests. 278.15 audit days were completed for Dover District Council during 2016-2017 which represents 97.8% plan completion. The 5.95 days behind at the year end, will be carried over to 2017-18. The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. However, the progress in ensuring adequate coverage against the agreed audit plan of work since 2007-08 concludes that EKAP is 5.95 days behind schedule as we commence 2017-18, as shown in the table below.

Year	Plan Days	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Carried Forward (Days Planned – Days Delivered)
2008-09	450	0	450.00	459.33	102.07%	+9.33
2009-10	450	-9.33	440.67	431.22	97.80%	-18.78
2010-11	420	+9.45	429.45	445.21	103.60%	+25.21
2011-12	312	-15.76	296.24	291.25	98.32%	-20.75
2012-13	300	+4.99	304.99	313.85	102.91%	+13.85
2013-14	270	-8.86	261.14	270.18	103.46%	+0.18
2014-15	270	-9.04	260.96	259.66	99.49%	-10.34
2015-16	270	1.3	271.3	257.22	94.8%	-12.78
2016-17	270	-14.1	264.05	278.15	97.91%	+8.15
Total	3,012			3,006.05	99.80%	-5.95

Appendix 3 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Housing Ltd. Dover District Council contributed 25 days from its original plan in 2011-12 and 20 days in subsequent years as its share in this four way arrangement. The EKH Annual Report in its full format will be presented to the EKH - Finance and Audit Sub Committee on 3rd July 2017.

Appendix 4 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Services. Dover District Council contributed 60 days from its original plan as its share in this three-way arrangement. As EKS is hosted by TDC, the EKS Annual Report in its full format will be presented to the TDC - Governance & Audit Committee on 28th June 2017.

5. Overall assessment of the System of Internal Controls 2016-17

Based on the work of the EKAP on behalf of Dover District Council during 2016-17, the overall opinion is:

There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The Council can have a

very good level of assurance in respect of all of its main financial systems and a good level of assurance in respect of the majority of its Governance arrangements. The main financial systems that have been covered, which feed into the production of the Council's Financial Statements, have achieved good levels of assurance following audit reviews. The Council can therefore be assured in these areas. This position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have been raised.

There was one area where only a limited assurance level was given which reflected a lack of confidence in arrangements. This review is shown in the table in Paragraph 6 which details the planned follow up activity for areas awaiting a progress report.

6. Significant issues arising in 2016-17

From the work undertaken during 2016-17, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time. It is particularly note worthy to report that after follow up there were no high-risk recommendations outstanding at the year-end.

The EKAP has been commissioned to perform only one follow up, there were no reviews that remained a Limited Assurance after follow up, however one recommendation that was originally assessed as high risk, which remained a high priority and outstanding after follow up was escalated to the Governance Committee during the year.

Reviews previously assessed as providing a (partial) Limited Assurance that are yet to be followed up are shown in the table below. The progress reports for these will be reported to the Committee at the meeting following completion of the follow up.

Area Under Review	Original Assurance (Date to Committee)	Progress Report
Playgrounds	Limited December 2016	Quarter Two 2017-18
Performance Management	Reasonable/ Limited April 2017	Quarter Three 2017-18

And for EK Services there was one review that remained Limited Assurance after follow up and two recommendations that were originally assessed as high risk, which remained a high priority and outstanding after follow up were escalated to the Governance and Audit Committee during the year.

Area Under Review	Original Assurance (Date to Committee)	Progress Report
PCI DSS	Limited September 2016	Quarter Two 2017-18

And for East Kent Housing one review (Housing Repairs) remained at Limited assurance after follow up, there are no other limited assurances awaiting a follow up.

7. Overall Conclusion

The Internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit

plan for the year 2015-16, however, this is as expected and there are no matters of concern to be raised at this time.

It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an 'effective' internal audit function, when forming my opinion on the Council's overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion.

From the work undertaken the EKAP assesses the overall system of internal control in operation throughout 2016-17 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

Definition of Audit Assurance Statements & Recommendation Priorities

Assurance Statements:

Substantial Assurance - From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance - From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance - From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance - From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

**Performance against the greed 2016-17
Dover District Council Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-2017	Status and Assurance Level
FINANCIAL SYSTEMS:				
Treasury Management	5	5	5.06	Finalised - Substantial
Main Accounting System	10	10	7.80	Finalised - Substantial
Budgetary Control	10	10	7.80	Finalised - Substantial
Insurance & Inventories of Portable Assets	10	10	14.93	Finalised - Substantial
RESIDUAL HOUSING SYSTEMS:				
Homelessness	10	10	6.22	Work-in-Progress
HRA Business Plan	10	10	0.45	Work-in-Progress
GOVERNANCE RELATED:				
Data Protection, FOI, and Information Records Management	10	11	11.41	Finalised – Reasonable
Officers' Code of Conduct & Gifts and Hospitality	10	0	0.24	Postpone until 2017-18;
Anti-Fraud & Corruption	10	10	10.09	Finalised - Reasonable
Performance Management	10	10	11.99	Finalised -Reasonable/ Limited
Corporate Advice/CMT	2	2	5.42	Completed
s.151 Meetings and support	9	9	10.03	Completed
Governance Meetings & Reports	12	12	12.69	Completed
2017-18 Audit Plan Prep & Meetings	9	9	9.71	Completed
CONTRACT RELATED:				
Receipt & Opening of Tenders	8	8	6.39	Finalised - Substantial
SERVICE LEVEL:				
Cemeteries	10	10	9.03	Finalised - Reasonable
Safeguarding Return to KCC (s11)	1	0	0	Not Required
Food Safety	10	0	0	Postpone until 2017-18;
Port Health	10	0	1.11	Postpone until 2017-18;
Contaminated Land	10	0	0.21	Postpone until 2017-18;
Business Continuity & Emergency Planning	10	10	17.83	Finalised - Reasonable
Disabled Facilities Grants	10	10	10.78	Finalised - Reasonable

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-2017	Status and Assurance Level
Land Charges	10	10	0.95	Work-in-Progress
Licensing	10	0	0.30	Postpone until 2017-18;
Members Allowances	10	10	4.67	Finalised - Substantial
Planning & s.106 Agreements	12	12	10.07	Finalised – Substantial
OTHER				
Liaison with External Auditors	2	0	0	Completed
Follow-up Work	10	10	18.23	Completed
FINALISATION OF 2015-16 AUDITS				
Grounds Maintenance	5	36.78	0.68	Finalised - Limited
Shared Service Monitoring			3.95	Finalised – Reasonable
Commercial Properties and Concessions			8.70	Finalised - Reasonable
Dog Warden & Litter Enforcement			3.96	Finalised - Reasonable
Election Management			2.63	Finalised - Reasonable
Equality & Diversity			10.89	Finalised - Reasonable
Recruitment			5.70	Finalised - Substantial
Procurement			0.27	Finalised - Reasonable
Days under delivered in 2015-16	0	14.1	0	Completed
RESPONSIVE ASSURANCE:				
Cash Counting Arrangements	0	2	1.90	Finalised
Right to Buy	0	8	5.30	Work-in-Progress
Playgrounds	0	8	9.99	Finalised - Limited
Garden Waste & Recycling Income	0	8	11.50	Finalised - Reasonable
PCN Complaint	0	0	2.77	Finalised
Inward Investment, External Funding & Project Management	0	26	7.01	Work-in-Progress
EK HUMAN RESOURCES				
Payroll	5	5	3.15	Work-in-Progress
Employee Benefits in Kind	5	5	1.23	Work-in-Progress
Leavers and Disciplinary	5	5	5.11	Finalised - Substantial
TOTAL	270	284.10	278.15	97.90%

**Performance against the Agreed 2016-17
East Kent Housing Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-2017	Status and Assurance Level
Planned Work:				
Governance	15	0	0	Postponed to future audit plan
Finance Systems and ICT Controls	15	10	0	Postponed to future audit plan
Finance & Audit Sub Ctte/Plan/CMT	3	4	5.38	Completed
Follow-up Reviews	3	4	4.96	Completed
Rent Accounting & Collection	15	0	0	Postponed to future audit plan
Tenancy & Estate Management	29	22	20.55	Finalised - Substantial
Days over delivered in 2015-16	0	-18.15	0	Completed
Responsive Assurance:				
Procurement	0	15	14.92	Finalised
Repairs and Maintenance Contract Query	0	0	0.60	Finalised
Performance Indicator Data Quality	0	10	5.48	Work-in-Progress
Single System Controls	0	15	2.12	Postponed to 2017-18
Total	80	61.85	54.01	87.32% at 31-03-2017

**Performance against the Agreed 2016-17
East Kent Services Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-2017	Status and Assurance Level
Planned Work:				
Housing Benefit Overpayments	15	14	13.85	Finalised - Substantial
Fraud Arrangements	15	0	0.64	Postponed to future audit plan
Housing Benefit Subsidy	15	10	0.36	Work-in-progress
Council Tax	30	15	0.47	Work-in-progress
Customer Services	15	15	15.31	Finalised - Substantial
ICT Change Controls	12	11	11.99	Finalised - Substantial
ICT Software Licensing	12	11	11.85	Finalised - Reasonable
ICT Network Security	12	11	10.89	Work-in-progress
DDC / TDC Quarterly Housing Benefit Testing	20	20	18.43	Completed
Other:				
Corporate/Committee	8	7	9.85	Completed
Follow-up	6	4	4.46	Completed
Finalisation of 2015-16 Audits:				
Business Rates Credits	0	33.58	6.11	Finalised - Reasonable
Business Rates Reliefs			10.43	Finalised - Reasonable
Debtors			2.45	Finalised - Substantial
ICT Disaster Recovery			5.81	Finalised – Reasonable/Substantial
ICT Management & Finance			3.84	Finalised - Substantial
ICT PCI DSS			4.94	Finalised - Limited
Days under delivered in 2015-16	7.33	7.33	0	Completed
Responsive Assurance:				
Housing Benefit +40 testing	0	17	17.95	Completed
Total	167.33	167.33	149.63	89.42% at 31-03-2017

EKAP Balanced Scorecard – 2016-17

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Original Budget</u>
	Quarter 4		Reported Annually		
Chargeable as % of available days	86%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£294.47	£326.61
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£378,711.25	£419,420
CCC	102.80%	100%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£10,530	£11,700
DDC	97.91%	100%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£536.25	Zero
SDC	94.88%	100%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 	£388,705	£431,120
TDC	106.67%	100%	<ul style="list-style-type: none"> • Saving Target Achieved (shared between all partners) 	£42,415	£42,415
EKS	89.42%	100%			
EKH	87.32%	100%			
Overall	98.15%	100%			
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	78	-			
<ul style="list-style-type: none"> • Not yet due 	20	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	33	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Target</u>
	Quarter 4		Quarter 4		
Number of Satisfaction Questionnaires Issued;	80		Percentage of staff qualified to relevant technician level	83%	75%
Number of completed questionnaires received back;	43		Percentage of staff holding a relevant higher level qualification	36%	32%
	= 54%		Percentage of staff studying for a relevant professional qualification	28%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	0.97	3.5
• Interviews were conducted in a professional manner	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	36%	32%
• The audit report was 'Good' or better	100%	90%			
• That the audit was worthwhile.	100%	100%			

Governance Committee
Dover District Council
Progress Report and Update
Year ended 31 March 2017

June 2017

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



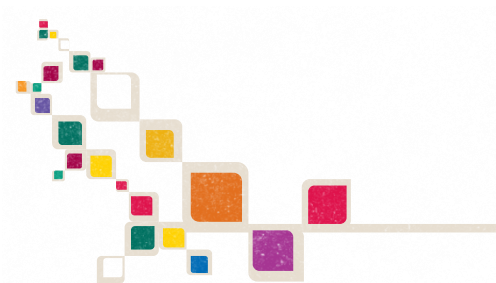
Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grantthornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- CFO Insights – reviewing council's 2015/16 spend (December 2016);
<http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016);
<http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016);
<http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016)
<http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2017	Yes	
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	April 2017	Yes	We presented our Audit Plan at the meeting on 6 April 2017.
<p>Interim accounts audit Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	November – March 2017	Yes	We reported on the results of our interim audit in our Audit Plan.
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	July – August 2017	Not yet due	We plan to commence our year end audit on 17 July 2017.
<p>Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	July – August 2017	Not yet due	We will complete our VfM conclusion work during our final accounts visit.

Technical Matters



Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Sector issues and developments



Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published.

http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

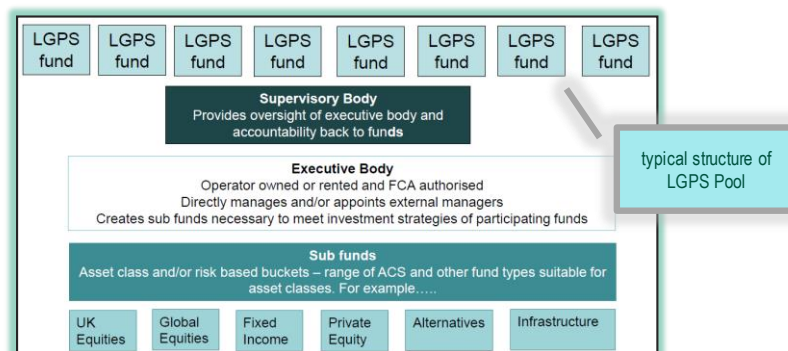
The funds themselves will retain responsibility for:

- investment strategy
- asset allocation
- having a responsible investment strategy
- reporting to employers and members.

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures. CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

Link
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

Consultation on the White Paper closed on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf



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Subject:	TREASURY MANAGEMENT YEAR END REPORT
Meeting and Date:	Governance – 29th June 2017 Cabinet – 3rd July 2017 Council – 19th July 2017
Report of:	Mike Davis – Director of Finance, Housing & Community
Portfolio Holder:	Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance
Decision Type:	Non-Key Decision
Classification:	Unrestricted

Purpose of the report:	To provide details of the Council’s treasury management for the financial year ended 31 March 2017 (Q4) and an update of activity to date.
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Recommendation:	That the report is received
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1. Summary

This report covers the outturn for the year ending March 2017, and will also be included in the Cabinet agenda. The main points to note are that, while we are outperforming the benchmark, interest rates are down, we are working to get the best returns we can, but nonetheless, we are likely to see falling income from interest in the future that will be an additional budget pressure. To mitigate this, we have appointed new treasury advisers, Arlingclose Ltd, from 1st April 2017, to explore alternative treasury management options.

As at 31st March 2017, the Council’s in-house investment portfolio totalled £55.7m (see Appendix 2). The revised Treasury Management Strategy Statement (TMSS) for 2016/17 was updated and approved at the end of November 2016, with the view to increasing borrowing limits only (see section 5 below).

Additionally, cashflow funds were higher than anticipated (£10.7m at 31st March 2017) due to a capital receipt of £7.6m on 29th March 2017 relating to sale of land at Aylesham, which was temporarily placed in the Standard Life Money Market Fund. Cashflow funds have since reduced (to £6.3m at 31st May 2017), partly as a result of re-investing the capital receipt.

The Council has remained within its Treasury Management guidelines, except for briefly exceeding the counter party limit of £8m with Standard Life Money Market Fund, which stood at £9.5m for two days only, due to the Aylesham capital receipt. The Council has remained within the Prudential Code guidelines during the period.

The Council’s investment return for the year was 0.50%, which outperformed the benchmark¹ by 0.18%. The Council’s budgeted investment return for 2016/17 was £329k, and performance for the year was £342k, which is a favourable variance of

¹ The “benchmark” is the interest rate against which performance is assessed. DDC use the London Inter-Bank Bid Rate or LIBID, as its benchmark.

£13k. This is partly due to the use of notice accounts and the higher level of balances available for deposit generally, which has enabled us to maintain projected investment income against a background of decreasing interest rate returns.

2. Introduction and Background

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011: it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

In order to comply with the CIPFA code referred to above, a brief summary is provided below and Appendix 1 contains a full report from the Council's treasury management advisers, Arlingclose Ltd. Please note that our previous treasury advisers, Capita Asset Management, ceased to provide the advisory function as at 31st March 2017 and the details at Appendix 1 have therefore been provided by their successors, Arlingclose.

Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim with regards to their explanation of the economic background. Generally, treasury advisers use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

Council adopted the 2016/17 Treasury Management Strategy Statement (TMSS) on 4 March 2016 as part of the 2016/17 Budget and Medium Term Financial Plan. This has been updated twice during the year, for borrowing limits (see section 5 below, "New Borrowing").

With the appointment of new treasury advisers, we expect to revise the TMSS for 2017/18 to potentially use additional investment instruments and consider other approaches to the Council's investment strategy. Approval will be sought for the revised TMSS through the normal committee reporting processes prior to taking any action recommended by the new treasury advisers that is currently outside the TMSS for 2017/18 approved at Council on 1st March 2017.

3. Annual investment strategy

The Gilt holding of £1.9 million remains with King and Shaxson and will be held until its maturity date of July 2018.

The investment portfolio as at the end of March is attached at Appendix 2. Since the end of the quarter, three deposits have matured. The £8m Barclays' deposit that matured on 5th April 2017 has been invested with two Local Authorities for a period of three months from 10th April at a rate of 0.30% (£5m with Suffolk County Council and £3m with Blackpool Borough Council). The Leeds Building Society investment of £5m that matured on 6th April 2017 was returned to cashflow funds and used to repay a £4m temporary loan from South Holland District Council. Separately, £7.5m of the capital receipt received from the sale of land at Aylesham has been invested with Birmingham City Council for 12 months at a rate of 0.70%. The Lloyds investment of

£1m that matured on 11th May 2017 has not yet been reinvested and is currently part of the Bank of Scotland 'call account' balance.

Cash flow funds decreased from £14.2m at 31st December 2016 to £10.7m at 31st March 2017 (see Appendix 2). This is normal and expected, as there are reduced council tax receipts in February and March (generally paid over 10 months from April to January), while preceptors on the Collection Fund are paid their shares of Council Tax income evenly over the year. There was also a further six-monthly PWLB loan instalment of £2.35m paid for the 2016/17 year at the end of March. Cashflow funds have decreased from £10.7m at the end of March 2017 to £6.3m at the end of May 2017 (see Appendix 4), which partly arises from the decision to invest the Aylesham land sale money in a fixed term deposit with another local authority.

Please note that, following the Brexit vote and the reduction in bank base rate, interest rates dropped with all institutions. There is some expectation of a further base rate cut and some institutions may price this in, leading to further reductions in rates offered and pressure on investment income for 2017/18. However, the Arlingclose central case is for bank rate to remain at 0.25%, but there is a low possibility of a drop to close to zero.

4. **Economic background**

The report attached (Appendix 1) contains information up to the end of March 2017; since then we have received the following update from Arlingclose. Please note that any of their references to quarters are based on *calendar* years:

Introduction

Commodity prices slid back in April with oil falling below \$50 a barrel – a 5 month low – as did industrial metal prices (iron ore, copper, zinc). The primary factor in the oil price fall was oversupply and a lack of belief in OPEC's (Organisation of Petroleum Exporting Countries) ability to deliver on agreed production caps of members.

UK Data

UK Consumer Price Index (CPI) rose over the quarter and the data print for May showed CPI at 2.9%, its highest since June 2013. The effect of the fall in fuel prices was offset by rises in a number of other categories in the CPI 'basket' as the fall in the value of sterling following June 2016's referendum result continued to feed through into higher import prices. The most recent labour market data for April 2017 showed that the unemployment rate at 4.6% remained at its lowest since July 1975 but that the squeeze on real wages (i.e. after inflation) is intensifying and resulting in negative real wage growth. Q1 GDP data released in April and revised in May showed economic activity growing at a much slower pace of 0.2%. However recent surveys indicate that the slowdown in the first quarter is being viewed as an anomaly and that Q2 GDP could rebound. Understandably, the Bank of England made no change to monetary policy and none is expected at its meeting on 15th June.

US Data

Having raised rates in March, the US Federal Reserve made no change to monetary policy at the conclusion of its meeting in May. The recent weakness witnessed in the first print of Q1 US GDP was noted in the accompanying statement but the Fed viewed this as a transitory issue and was of the view that the GDP path and household spending would recover during 2017. The Fed's outlook supports two

further rate hikes during 2017 with the first likely in June when a 0.25% increase would take US official interest rates into the 1.00%-1.25% range. (please note that the outcome of the Federal Reserve meeting will be known around 1900 hours on Wed 14th June).

Impact of General Election

The non-economic event which has and will continue to have a significant impact in the medium term is June's General Election which was called by Prime Minister Theresa May to resolve uncertainty and in the hope of providing her an enhanced mandate to enter the forthcoming Brexit negotiations. The shock result was of no winner in overall political party terms, and the ultimate outcome of this election now hinges on the ability of the Conservatives to reach an agreement with the Democratic Unionist Party (DUP) in Northern Ireland and its 10 sitting MPs to form a coalition government that can work cohesively over a challenging two year period ahead. On a more immediate note there is real pressure to demonstrate that a Queen's Speech can be passed in the new Parliament with Brexit negotiations due to commence on 19th June so as to remain within the 2 year timeframe triggered by Article 50. This political impasse clearly results in an enhanced level of political uncertainty, however the potential for a so-called hard Brexit are now much diminished, reducing the associated economic headwinds for the UK economy from a 'no deal' or hard Brexit.

Up to now the reaction from the markets on the election's outcome has been fairly muted, business confidence now hinges a lot on the progress or not on Brexit negotiations, the success of concluding new trade treaties and whether or not the UK continues to remain part of the EU customs union post the country's exit from the EU (the pre-election objective of the government was for the UK to be outside the EU Common External Tariff).

Bank Base Rate

Arlingclose expects the Bank of England will look through periods of high inflation, and maintain its low-for-longer stance on policy rates for an extended period.

BANK RATE

Q2 2017	0.25%
Q3 2017	0.25%
Q4 2017	0.25%
Q1 2018	0.25%

5. New Borrowing

The Council's borrowing portfolio is attached at Appendix 3. The only new borrowing undertaken during the quarter was a short-term loan of £4m. This was taken out on 22nd March 2017 to cover an expected shortfall in cash flow money over the year-end, but this shortfall did not materialise due to the capital receipt from the sale of land at Aylesham. The loan was repaid on 21st April 2017. The interest paid was minimal and is offset within the final investment income figure of £342k, which exceeded budget by £13k.

Council approved a revised TMS on 28th September 2016 to increase *borrowing limits* to enable the borrowing to support the Dover Leisure Centre project to be undertaken, and a further update on 30th November 2016 to approve a further increase in *borrowing limits* to fund the separate Property Investment Strategy, which itself was approved at the 30th November meeting. Details of any specific borrowing

will be advised to Members as part of the quarterly update reports when it is undertaken. None was undertaken in the quarter to March 2017. However, it is likely that borrowing *will* be undertaken in 2017/18, dependent on timing of projects and progress under the property investment strategy.

6. **Debt Rescheduling**

At this time it is not of benefit to the Council to consider rescheduling of its long-term debt.

7. **Compliance with Treasury and Prudential Limits**

The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices, but has briefly exceeded the level of permissible deposit with Standard Life Money Market Fund as mentioned above (for two days only). Otherwise the Council has remained within its Treasury Management guidelines.

8. **Corporate Implications**

Comment from the Section 151 Officer: Finance have no further comments to make. (SG)

Comment from the Solicitor to the Council: The Solicitor to the council has been consulted in the preparation of this report and has no further comments to make.

Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15>

Appendices

Appendix 1 – Arlingclose treasury management outturn report for 2016/17

Appendix 2 – Investment portfolio as at 31 March 2017

Appendix 3 – Borrowing portfolio as at 31 March 2017

Appendix 4 – Investment portfolio as at 31 March 2017

Background Papers

Medium Term Financial Plan 2016/17 – 2018/19

Contact Officer: Stuart Groom, extension 2072

Treasury Management Outturn Report 2016/17

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

The Authority's treasury management strategy for 2016/17 was approved at a meeting of the Authority on 2 March 2016. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

Credit background: Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

Local Context

On 31st March 2017, the Authority had net borrowing / investments of £25m arising from its revenue and capital income and expenditure, an increase on 2016 of £14m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.16 Actual £000	2016/17 Movement £000	31.3.17 Actual £000
General Fund CFR	11,685	0	11,685
HRA CFR	78,358	2,081	76,277
Total CFR	90,043	2,081	87,962
Less: Usable reserves	(46,010)	10,918	(56,928)
Less: Working capital	(4,920)	801	(5,721)
Net borrowing	39,113	13,800	25,313

Net borrowing has decreased due to a fall in the CFR as new capital expenditure was lower than the financing; together with an increase in usable reserves, especially due to £17m in the capital receipt reserve; and a rise in working capital due to the timing of receipts and payments.

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2017 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	31.3.16 Balance £000	2016/17 Movement £000	31.3.17 Balance £000	31.3.17 Rate %
Long-term borrowing	87,669	(2,154)	85,515	3.39
Short-term borrowing	2,086	4,068	6,154	0.40
Total borrowing	89,755	1,914	91,669	
Short-term investments	34,452	21,252	55,704	0.50
Cash and cash equivalents	16,190	(5,538)	10,652	0.50
Total investments	50,642	15,714	66,356	
Net borrowing	(39,113)	13,800	(25,313)	

The decrease in net borrowing in table 1 has translated into a rise in investment balances due to the Authority's internal borrowing policy. The increase in investment balances is mainly due to a capital receipt of £7.6m received in March 2017.

Borrowing Activity

At 31st March 2017, the Authority held £92m of loans, an increase of £2m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in table 3 below.

Table 3: Borrowing Position

	31.3.16 Balance £000	2016/17 Movement £000	31.3.17 Balance £000	31.3.17 Rate %
Public Works Loan Board	86,756	(2,087)	84,669	3.39
Banks (LOBO)	3,000	0	3,000	4.75
Banks (fixed-term)	0	0	0	
Local authorities (long-term)	0	0	0	
Local authorities (short-term)	0	4,000	4,000	0.40
Total borrowing	89,756	1,913	91,669	

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

The Authority continues to hold £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during 2016/17.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Authority's investment balance ranged between £55.7 and £66.7 million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change is shown in table 4 below.

Table 4: Investment Position

	31.3.16 Balance £000	2016/17 Movement £000	31.3.17 Balance £000	31.3.17 Rate %
Banks & building societies (unsecured)	39,182	12,737	51,919	0.48
Covered bonds (secured)	0	0	0	
Government (incl. local authorities)	1,910	3,000	4,910	0.85
Corporate bonds and loans	0	0	0	
Money Market Funds	9,550	(23)	9,527	0.32
Other Pooled Funds	0	0	0	
Total investments	50,642	15,714	66,356	

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance

between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority is looking to further diversify into more secure and/or higher yielding asset classes during 2017/18. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below. The potential benefits of future diversification can be seen by comparison to other local authorities (LAs) below.

Table 5: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2016	4.22	AA-	66%	53	0.71%
30.06.2016	4.21	AA-	64%	57	0.69%
30.09.2016	4.30	AA-	66%	54	0.60%
31.12.2016	4.33	AA-	64%	50	0.52%
31.03.2017	4.30	AA-	60%	47	0.61%
Similar LAs	4.18	AA-	58%	137	1.68%
All LAs	4.30	AA-	60%	47	1.14%

Performance Report

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £000	Budget £000	Over/ (under)	Actual %	Benchmark %	Over/ (under)
Interest received	342	329	13	0.50	0.32	0.18
Interest payable	3,021	3,020	1	3.39	3.39	0

Compliance Report

The Director of Finance is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy, with the minor exception of £9.5m being held in the Standard Life Investments Money Market Fund for two full days only, following a capital receipt from the sale of land at Aylesham (29th - 31st March 2017). Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Limit/%	Complied
Operating Bank (NatWest)	£14.3m	£1.1m	£20m	✓
Unsecured investments with other UK banks	£8m	£8m	£8m	✓
Investments held in a broker's nominee account	£8m	£1.9m	£8m	✓
Unsecured investments with Building Societies	£8m	£5m	£8m	✓
Money Market Funds	£9.5m	£8m	£8m	*
Individual Local Authorities	£3m	£3m	100%	✓

* exceeded for two days only, as previously described, otherwise £8m or less with any MMF at any time.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	2016/17 Maximum £000	31.3.17 Actual £000	2016/17 Operational Boundary £000	2016/17 Authorised Limit £000	Complied
Borrowing	92,000	91,913	333,000	338,500	✓
Total debt	92,000	91,913	333,000	338,500	✓

Since the operational boundary is a management tool for in-year monitoring, it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was above the operational boundary for 0 days during 2016/17.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: For 2016/17 our approved creditworthiness policy was to follow the Capita Asset Services creditworthiness service using credit ratings from the three main credit rating agencies (Fitch, Moody's and Standard and Poor's), overlaid with credit default swap spreads, sovereign ratings for countries, and other data, as laid out in the 2016/17 TMSS. The policy was complied with throughout the year.

Liquidity: The Authority seeks to maintain a bank overdraft facility of £0.5m and to maintain liquid short term deposits of at least £1m available with a week’s notice. This minimum was maintained, including by borrowing £4m from another local authority from 22nd March 2017 to 21st April 2017 to meet expected payments. The receipt of £7.6m from the sale of land at Aylesham on 29th March 2017 meant that funds were, in fact, higher than expected.

Interest Rate Exposures: This indicator is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of principal borrowed was:

	31.3.17 Actual	2016/17 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0%	30%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.17 Actual £000	Upper Limit	Lower Limit	Complied
Under 12 months	9,729	50%	0	✓
12 months and within 24 months	3,373	50%	0	✓
24 months and within 5 years	7,243	50%	0	✓
5 years and within 10 years	13,695	100%	0	✓
10 years and above	61,282	100%	0	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

In-house Investments as at 31/03/17

APPENDIX 2

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon								
United Kingdom	Gilt		24/05/2013	22/07/2018	1.250	950,000		
United Kingdom	Gilt		11/06/2013	22/07/2018	1.250	960,000		
						<u>1,910,000</u>		
<u>In-house Investments - Portfolio:</u>								Duration
Nationwide	Fixed term deposit	A/F1/5	04/01/2017	04/07/2017	0.420	1,000,000	UK - Gov 'AA'	184 days
Lloyds	Fixed term deposit	A+/F1/5	30/01/2017	31/07/2017	0.600	2,000,000	UK - Gov 'AA'	185 days
Nationwide	Fixed term deposit	A/F1/5	01/02/2017	01/08/2017	0.370	3,000,000	UK - Gov 'AA'	184 days
Nationwide	Fixed term deposit	A/F1/5	24/02/2017	24/08/2017	0.370	3,000,000	UK - Gov 'AA'	184 days
Barclays	Fixed term deposit	A/F1/5	04/10/2016	05/04/2017	0.451	8,000,000	UK - Gov 'AA'	183 days
Leeds BS	Fixed term deposit	A-/F1/5	06/10/2016	06/04/2017	0.460	5,000,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	11/11/2016	11/05/2017	0.600	1,000,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	19/12/2016	20/06/2017	0.600	3,000,000	UK - Gov 'AA'	183 days
Bank of Scotland	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	7,400,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	2,000,000	UK - Gov 'AA'	182 days
Eastleigh Borough Council	Fixed term deposit	A+/F1/5	24/02/2017	24/08/2017	0.430	3,000,000	UK - Gov 'AA'	182 days
HSBC (Evergreen)	Notice Savings Account	AA-/F1+1	26/02/2016		0.357	7,526,025	UK - Gov 'AA'	90 days notice required to withdraw funds
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.650	7,868,176	UK - Gov 'AA'	95 days notice required to withdraw funds

57

53,794,200

Total Portfolio

55,704,200

Cashflow:

Call Accounts/MMF (as at 31/03/17)

Rate

Global Treasury Fund (Goldman Sachs Money Market Fund)	1,527,106	0.23%
Standard Life Investments (Money Market Fund)	8,000,000	0.29%
Natwest SIBA	966,452	0.01%
Natwest SIBA - SEEDA (DTIZ)	56,096	0.01%
Natwest SIBA - EP (HCA)	47,779	0.01%
Natwest SIBA - ASDA	0	0.01%
Santander	502	0.05%
Bank of Scotland (BOS)	37,333	0.15%
HSBC Business Acc	0	0.00%
Barclays	16,054	0.00%

Total Cash flow

10,651,322

Total Portfolio and Cashflow

66,355,522

On 10/3/17 we arranged a temporary loan of £4,000,000 from 22/3 to 21/4 as it looked like there would be a short fall of cash flow funds at year end.

On 22/3/17 the Planning Delivery Manager advised that we would shortly be receiving a capital receipt for Aylesham circa £6 million, but actually received £7.6 million on 29/3/17.

On 31/3/17 we made a fixed term deposit with Birmingham City Council £7,500,000 from 28/4/2017 - 27/4/2018 @0.70% - see also Appendix 4.

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-16	Interest Rate %	Principal To Be Repaid 2016/17	Annual Interest 2016/17	Lender	Type of loan
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		67,500	PWLB	Principal due on Maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		147,500	PWLB	Principal due on Maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	468	2.50	44.64	13	PWLB	Equal Instalment of Principal (EIP)
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	87	2.50	8.40	2	PWLB	Equal Instalment of Principal (EIP)
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		47,500	PWLB	Principal due on Maturity
Variable	16/12/2002	16/12/2042	JUNE-DEC	N/A	3,000,000	4.75		142,500	KA Finanz AG Bank	Repayable if called by Bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	82,754,565	3.18	2,086,670.69	2,615,137	PWLB	Annuity - HRA Financing
Fixed	01/05/2012	01/11/2027	MAY-NOV		95,806	0.00	8,709.60	0	Lawn Tennis Association	Interest free
					89,850,927		2,095,433	3,020,152		

In-house Investments as at 31/05/17

APPENDIX 4

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon								
United Kingdom	Gilt		24/05/2013	22/07/2018	1.250	950,000		
United Kingdom	Gilt		11/06/2013	22/07/2018	1.250	960,000		
						<u>1,910,000</u>		

In-house Investments - Portfolio:

								Duration
Lloyds	Fixed term deposit	A+/F1/5	19/12/2016	20/06/2017	0.600	3,000,000	UK - Gov 'AA'	183 days
Bank of Scotland	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	7,400,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	2,000,000	UK - Gov 'AA'	182 days
Nationwide	Fixed term deposit	A/F1/5	04/01/2017	04/07/2017	0.420	1,000,000	UK - Gov 'AA'	184 days
Suffolk County Council	Fixed term deposit		10/04/2017	10/07/2017	0.300	5,000,000	UK - Gov 'AA'	91 days
Blackpool Borough Council	Fixed term deposit		10/04/2017	10/07/2017	0.300	3,000,000	UK - Gov 'AA'	91 days
Lloyds	Fixed term deposit	A+/F1/5	30/01/2017	31/07/2017	0.600	2,000,000	UK - Gov 'AA'	185 days
Nationwide	Fixed term deposit	A/F1/5	01/02/2017	01/08/2017	0.370	3,000,000	UK - Gov 'AA'	184 days
Nationwide	Fixed term deposit	A/F1/5	24/02/2017	24/08/2017	0.370	3,000,000	UK - Gov 'AA'	184 days
Eastleigh Borough Council	Fixed term deposit	A+/F1/5	24/02/2017	24/08/2017	0.430	3,000,000	UK - Gov 'AA'	182 days
Birmingham City Council	Fixed term deposit		28/04/2017	27/04/2018	0.700	7,500,000	UK - Gov 'AA'	364 days
HSBC (Evergreen)	Notice Savings Account	AA-/F1+/1	26/02/2016		0.357	7,532,714	UK - Gov 'AA'	90 days notice required to withdraw funds
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.650	7,868,176	UK - Gov 'AA'	95 days notice required to withdraw funds

59

55,300,889

Total Portfolio

57,210,889

Cashflow:

Call Accounts/MMF (as at 31/05/17)

Rate

Global Treasury Fund (Goldman Sachs Money Market Fund)	106	0.18%
Standard Life Investments (Money Market Fund)	4,379,000	0.25%
Natwest SIBA	715,014	0.01%
Natwest SIBA - SEEDA (DTIZ)	56,097	0.01%
Natwest SIBA - EP (HCA)	47,780	0.01%
Natwest SIBA - ASDA	0	0.01%
Santander	502	0.05%
Bank of Scotland (BOS)	1,040,297	0.15%
HSBC Business Acc	0	0.00%
Barclays	34,136	0.00%

Total Cash flow

6,272,933

Total Portfolio and Cashflow

63,483,822

Lloyds	Fixed term deposit	A+/F1/5	11/11/2016	11/05/2017	0.600	1,000,000	UK - Gov 'AA'	182 days
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Lloyds investment matured on 11/05 and was paid into Bank of Scotland account. Currently reviewing TMS and so not reinvesting maturing fixed deposits as looking at other options with new treasury advisers.

Subject:	2016/17 ANNUAL GOVERNANCE ASSURANCE STATEMENT AND REVISED CORPORATE GOVERNANCE LOCAL CODE
Meeting and Date:	Cabinet – 12 June 2017 Governance Committee – 29 June 2017 Council – 19 July 2017
Report of:	David Randall, Director of Governance
Portfolio Holder:	Councillor Michael Conolly, Portfolio Holder for Corporate Resources and Performance.
Decision Type:	Non-Key
Classification:	Unrestricted

Purpose of the report: To approve the Annual Governance Assurance Statement 2016/17 and the revised Corporate Governance Local Code

- Recommendation:**
- (1) Cabinet approve the Annual Governance Assurance Statement and request that the Leader and the Head of Paid Service sign this statement on behalf of the Council.
 - (2) Governance Committee are asked to accept the Annual Governance Assurance Statement alongside the 2016/17 Statement of Accounts.
 - (3) Cabinet and Governance Committee recommend to Council that the revised Corporate Governance Local Code, which reflects the Delivering Good Governance in Local Government Framework (2016 Edition), is adopted.
 - (4) Council adopts the revised Corporate Governance Local Code.
-

1. Summary

- 1.1 Annually, the Council is required to conduct a review of the effectiveness of our system of internal control and also report on the extent to which we comply with our own Local Code of Corporate Governance. This must be conducted in accordance with the Delivering Good Governance in Local Government Framework 2016 Edition and is reported as the Annual Governance Assurance Statement. Cabinet are asked to accept the Annual Governance Assurance Statement for 2016/17, as recommended by the Corporate Management Team and request that the Leader and the Head of Paid Service sign this statement on behalf of the Council.
- 1.2 The Governance Committee is asked to accept the Annual Governance Assurance Statement alongside the 2016/17 Accounts.
- 1.3 A revised Delivering Good Governance in Local Government Framework (2016 Edition) has recently been published. This Council has reaffirmed its commitment to the principles of good governance in this new framework and these are reflected in a revised Corporate Governance Local Code. Cabinet and Council are requested to recommend this revised Local Code to Council for adoption.

2. Introduction and Background

- 2.1 The Accounts and Audit Regulations 2015, require that the Council conducts at least annually, a review of the effectiveness of its System of Internal Control and also report on the extent to which we comply with our own Local Code of Corporate Governance. The Council's Annual Governance Assurance Statement is prepared to meet these requirements and will be provided alongside the published Statement of Accounts in accordance with the Accounts and Audit Regulations 2015.
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a revised Delivering Good Governance in Local Government Framework in 2016 Edition and the requirements of the new Framework are reflected in this year's Annual Governance Assurance Statement and in a revised Corporate Governance Local Code (Appendices 1 and 4).
- 2.3 The statement is to be signed by the Leader and the Chief Executive, having paid due regard to any matters raised by the Section 151 Officer and the Monitoring Officer. In particular, the opinion of the Director of Governance and Monitoring Officer on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.
- 2.4 The Annual Governance Assurance Statement for 2016/17 is attached. Corporate Management Team agreed to its acceptance in May 2017. The statement has been prepared taking into account the following information:
- A detailed review of the Council's performance measured against the new Core and Sub Principles as detailed in the Delivering Good Governance in Local Government Framework 2016 Edition.
 - The service review work performed by Internal Audit during the year.
 - Internal Audit's review of Corporate Governance arrangements.
 - Assurance Statements produced by individual Directors of Service.
 - The information gathered as a result of risk assessment and management.
 - The annual reports of the Scrutiny, Governance and Standards Committees
- 2.5 The Action plan will be monitored during the year and progress reported to Governance Committee.

3. Identification of Options

- 3.1 Agree the Annual Governance Assurance Statement including the key actions identified for signature by the Leader and then inclusion in the 2016/17 Accounts and adopt the revised Corporate Governance Local Code.
- 3.2 Do not agree the Annual Governance Assurance Statement and Corporate Governance Local Code as provided and require further analysis and clarification.

4. **Evaluation of Options**

- 4.1 Option 1 is the preferred option, as in preparing the Annual Governance Assurance Statement and revising the Council's Corporate Governance Local Code. This fully meets the requirements of the Accounts and Audit Regulations 2015. Delivering Good Governance in Local Government Framework (2016 Edition) states:

"The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be "prepared in accordance with proper practices in relation to accounts". Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016)".

5. **Resource Implications**

None.

6. **Corporate Implications**

- 6.1 Comment from the Section 151 Officer: Finance have been consulted and have nothing further to add (VB).
- 6.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.
- 6.3 Comment from the Equalities Officer: This report does not specifically highlight any equalities implications, however in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15>

7. **Appendices**

Appendix 1 – Annual Governance Assurance Statement

Appendix 2 – Action Plan – Backward Looking

Appendix 3 – Action Plan – Forward Looking

Appendix 4 – Revised Corporate Governance Local Code

8. **Background Papers**

Accounts and Audit Regulations 2015

CIPFA Delivering Good Governance in Local Government Framework 2016 Edition

Contact Officer: David Randall, Director of Governance

Dover District Council Annual Governance Assurance Statement

1 APRIL 2016 TO 31 MARCH 2017

1. WHAT WE ARE RESPONSIBLE FOR

We are responsible for ensuring that our business is conducted in line with the law and proper accounting standards, and for using public money economically, efficiently and effectively. We have a duty under the Local Government Act 1999 to continually review and improve the way we work and at the same time have regard to a combination of economy, efficiency and effectiveness.

In order to meet our responsibility we have in place proper arrangements for overseeing what we do and this is called Governance. These arrangements make sure that we do the right things in the right way, that our services reach the right people and that we are open, honest and accountable in the way that we deliver those services. This all contributes to our sound system of governance

We have approved and adopted a Local Code of Corporate Governance and a copy of this is available on our website at <http://www.dover.gov.uk/Corporate-Information/CorporateGovernance.aspx>.

2. THE AIM OF THE GOVERNANCE FRAMEWORK

The Governance Framework details the systems, processes, culture and values that we are controlled by and which we are answerable to. It also shows what we get involved with and how we engage with the community. It also shows how we monitor what we are achieving so that we can deliver services that are appropriate and value for money.

The system of internal control is an important part of the framework and is designed to manage risk to a reasonable level. It cannot remove all risk of failure to achieve policies and aims and can only provide reasonable protection. The system of internal control is based on an ongoing process designed to:

- Identify and prioritise anything that could prevent us from achieving our policies and aims
- Assess how likely it is that identified risks might happen and what the result would be if they did
- Manage those risks efficiently, effectively and economically

The Governance Framework describes what has been in place at Dover District Council for the year ended 31 March 2017 and up to the date of approval of the Council's accounts.

3. **OUR GOVERNANCE FRAMEWORK**

Our Governance Framework is underpinned by seven core principles and supported by our Corporate Plan as well as many systems, policies, procedures and operations, which together ensure that the intended outcomes for our community and stakeholders are defined and achieved. Good governance is dynamic, and Dover District Council is committed to improving governance on a continuing basis through a process of evaluation and review.

The key features are:

(a) **Our Core and Supporting Principles**

The seven core principles are taken from the International Framework: *Good Governance in the Public Sector* and help this Council demonstrate good governance. Each of these principles translates into a range of specific requirements and they are also reflected in this Corporate Governance Local Code:

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

(b) **Our Corporate Plan**

This is our main strategic document providing a framework for the delivery of our services and providing context for all the other strategies and plans that we have. The Corporate Plan for 2016-2020 is published and is available on the Council's website. The Council approved a new Corporate Plan in March 2016 which continues with the overall direction of travel as the previous version.

The following strategic priorities have been identified in the 2016-2020 Corporate Plan:

- Thriving Economy
- Clean, Green and Safe Environment
- Healthier People and Communities
- Smarter Council

(c) **Business Plans**

The Business Plan is one of the central mechanisms for each Head of Service managing their own area of activity and therefore sits at the centre of the Corporate Governance process. The business plans support the aims of the Corporate Plan which include performance indicators that are used to measure our achievements.

(d) **Our Constitution**

Our Constitution details how we operate, how decisions are made and the procedures, which are to be followed. It also ensures that we work in an efficient and transparent way and that we are accountable to local people. The Monitoring Officer and Solicitor to the Council are responsible for keeping the Constitution under review.

(e) **The Executive**

The Executive are responsible for most decisions and is made up of the Leader and a Cabinet. Major decisions to be taken are published in advance in the Executive's Notice of Forthcoming Key Decisions, and will generally be discussed in a meeting open to the public. All decisions must be in line with our overall policies and budget. Any decisions the Executive wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

(f) **Corporate Management Team**

The Corporate Management Team comprises the Chief Executive (and Head of Paid Service) with responsibility for Regeneration and Development; Director of Governance (and Monitoring Officer); Director of Finance, Housing and Community (and S151 Officer) and Director of Environment and Corporate Assets.

Members of Corporate Management Team have a responsibility for the day to day running of each Division of the Council. They must regularly assess their Division's assurance arrangements and provide the Council with the opportunity to keep check on the adequacy of its overall arrangements.

(g) **Governance Committee**

The six (seven from May 2017) appointed members of the Council provide independent assurance of the adequacy of the risk management framework and the associated control environment together with independent review 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. The Committee also oversees the financial reporting process by considering the final Statement of Accounts. The Chairman provides an Annual Report of the Governance Committee to the Annual Council Meeting

(h) **Overview and Scrutiny**

There are two overview and scrutiny committees who support and monitor the work of the Executive. A "call-in" procedure or addition to the work programme allows scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The Monitoring

Officer provides an Annual Report of the Scrutiny Committees to the Annual Council Meeting.

(i) **Standards**

The standards of conduct and personal behaviour expected of our members and our officers, our partners and the community are defined in codes of conduct and protocols. These include:

- Members' code of conduct
- Officer Code of Conduct
- An effective performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- A fraud and corruption policy
- Member/officer protocols
- A Standards Committee. This committee wasn't reappointed from May 2017. The work of this committee has been transferred to the Governance Committee.

The relevant Chairman and the Director of Governance and Monitoring Officer jointly provide an Annual Report of the Standards Committee (ceases for 17/18) and of the Governance Committee to the Annual Council Meeting.

We have effective formal and informal complaints procedures. Complaints of service maladministration are investigated and reported to the Standards Committee and from May 2017 to the Governance Committee. Lessons learned from these complaints are reviewed and acted on.

The Monitoring Officer is responsible for considering allegations of Members breaches of the codes of conduct.

(j) **Our Solicitor**

The Solicitor to the Council provides his opinion on our compliance with our legal obligations.

(k) **Financial procedures and Contract Standing Orders**

We have to ensure that we act in accordance with the law as well as various other regulations. We have developed policies and procedures for our officers to ensure that, as far as are possible, they understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution. The Responsibility for Functions (Scheme of Officer Delegations) were reviewed during 2016/17 and the changes were considered and approved by the Governance Committee and Council.

(l) **Financial Management**

Our financial management arrangements conform with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. In addition to the Financial and Contractual procedure rules contained within the

constitution, in order to maintain its financial management the Council operates budgetary control procedures which are used in conjunction with a Medium Term Financial Plan (MTFP).

Responsibility for ensuring that an effective system of internal financial control is maintained rests with the Section 151 Officer. The systems of internal financial control provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected quickly.

Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes may be the responsibility of other managers.

In particular, the process includes:

- The setting of annual budgets;
- Producing the Medium Term Financial Plan
- Monitoring of actual income and expenditure against the annual budget;
- A mid-year review of the annual budget;
- Setting of financial and performance targets, including the use of the prudential code and associated indicators;
- Quarterly reporting of the Council's financial position to Members;
- Clearly defined capital expenditure guidelines;
- Treasury Management Strategy
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.
- A continuous and effective internal audit.

Through our budget monitoring processes we are able to ensure that financial resources are being used to their best advantage, this includes quarterly management reporting to the Corporate Management Team and Members.

Financial planning is underpinned by business planning. Increased expenditure in any service area has to be justified to the Corporate Management Team, and where necessary approved by the Executive. Corporate Management Team is tasked with prioritising resources to ensure that the objectives within Corporate Plan are supported by the individual business plans, and that improvements are in line with corporate objectives.

(m) **Policies**

Corporate policies on a range of topics such as Equality, Information Governance and Data Protection are all subject to internal review. We keep all staff aware of changes in policy, or documentation through a system called NETconsent. The corporate training needs are identified each year and appropriate training for all or key members of staff is provided.

(n) **Risk**

The risk management strategy, which forms part of the Corporate Governance Local Code, shows the role both Members and Officers have in the identification and

minimisation of risk. Risks are recorded in a Corporate Risk Register and are then subject to regular review.

(o) **Service Assurance**

A Service Assurance Statement is produced annually by all Directors of this Council and of Shared Services detailing their assessment of their services. They are required to give assurance that risks have been identified, that sound business arrangements operate in their service areas, and that the service is subject to monitoring and review in order to assess performance.

(p) **Performance Management Framework**

Progress towards the achievement of our objectives is monitored through our Performance Management Framework. A quarterly Performance Report is produced and reviewed by Corporate Management Team, by Cabinet and by the Scrutiny (Policy and Performance) Committee.

(q) **Internal Audit**

The East Kent Audit Partnership Internal Audit Team reports to the Director of Finance, Housing and Community. They operate under a Charter, which defines their relationship with our officers, and the Governance Committee. Their main responsibility is to provide assurance and advice on our internal control systems to the Corporate Management Team and Members. Internal Audit reviews the adequacy, reliability and effectiveness of internal control and recommends improvements where appropriate. It also supports the development of systems, providing advice on risk and control. Effective internal controls are an important part of the Corporate Governance process. Through their audit assurance work, internal audit provide an opinion on the effectiveness of the systems of internal control.

As part of the annual review of governance arrangements and in particular the System of Internal Control, we undertake an annual review of the effectiveness of the system of internal audit.

(r) **External Audit**

The work is currently undertaken by Grant Thornton, who are required to deliver their audit work in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

(s) **Core Strategy and Local Plan**

The Core Strategy is the overarching statutory planning document for the District and was adopted by the Council in February 2010. The Core Strategy identifies the overall economic, social and environmental objectives for the District and the amount, type and broad location of development that is needed to fulfil those objectives. The 2014/2015 Authority Monitoring Report signalled the need to review key parts of the Council's Adopted Core Strategy evidence base. Two important studies have been completed: The Strategic Housing Market Assessment (SHMA) and the Economic Development Needs Assessment (EDNA); both of these studies have indicated that there is a strong case to review the Council's Adopted Core Strategy and the Adopted Land Allocations Local Plan (LALP). On 1 March 2017, Cabinet approved the commencement of a Local Plan Review.

(t) **State of the District Report**

This report is the annual backward look at the state of the district, highlighting key information under the headings of: Population Profile; Housing; Economy, Business and Employment; Budget, Funding and Investment; Education and Skills; Regeneration Delivery, Transport and Infrastructure; Health and Wellbeing; Deprivation and Poverty; Community Safety and Quality of Life.

Some national information is not collected annually. In addition, periodically the process of capturing information is changed, this in turn makes year-on-year comparisons and trends difficult to assess. The report is published on our website and revised annually (or as soon as the relevant information is made available to the Council).

(u) **Communication and Consultation**

Strategies are in place. We have active Twitter and Facebook accounts, enabling the Council to communicate effectively with our communities and also enabling members of the public to communicate their views on a wide range of matters. In 2015 the Council launched its 'Keep Me Posted' email alert service which enables members of the public to subscribe to email messages from the Council on a wide range of topics. Subscribers to the service can choose from as many topics as they wish and can update their preferences as often as they like.

(v) **Equality**

As part of our equalities responsibilities, we publish our equality objectives and progress against the targets to ensure that all groups in our community have a voice, can be heard and know how we make our decisions. A revised equality policy was adopted by Cabinet in March 2016 and our latest performance update was published on our website in March 2017.

(w) **Whistleblowing**

A confidential reporting hotline is in place to enable internal and external whistle blowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous. There are also processes in place for staff to report through their line managers or East Kent Audit.

(x) **Employment Management**

The Employment Management Group considers all requests to fill staff vacancies. The group is chaired by the Director of Governance and supported by the Head of Finance, Head of Community Services and the EK Human Resources Business Partner. Their recommendations are considered by the Head of Paid Service who provides the final decision as to which posts can be filled.

(y) **Partnerships**

Partnership evaluation criteria have been established to help ensure that all key governance criteria are incorporated into new and existing partnerships.

4. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

We have a responsibility for conducting, at least annually, a review of the effectiveness of our governance framework including the system of internal control. This review is informed by the ongoing monitoring and review by the Director of Governance, EK Internal Audit Partnership and the Head of the Audit Partnership's Annual Report, the work of our Directors and Heads of Services and their managers who have responsibility for the development and maintenance of the governance environment. This review is also informed by the findings and reports of our external auditors together with any other review agencies or inspectorates.

(a) The Director of Governance and Monitoring Officer has responsibility for:

- Monitoring the Constitution and keeping it up to date
- Overseeing and monitoring the Corporate Governance Local Code
- Maintaining and updating the code if required by best practice
- Reporting annually to members on performance and compliance with the code
- Ensuring ethical standards and conduct are met

(b) The Director of Finance, Housing and Community has responsibility for:

- Publishing financial information and statements accurately and reliably.
- Confirmation that resources are managed efficiently and effectively.

(c) The Director of Governance and Monitoring Officer and the Director of Finance, Housing and Community have responsibility for:

- The overall review of the internal control opinion and framework evidence, including service assurance statements, the audit review of Corporate Governance, the Constitutional review, Performance reporting, Risk management arrangements and the individual audit and risk management assessments.
- Review of the Effectiveness of Internal Audit.
- The External Auditor's Annual Audit and Inspection Letter, service assessments and other associated reviews and ensuring that they are acted upon.

(d) All Directors have responsibility via a Service Assurance Statement to ensure that:

- Risks have been identified. They are recorded and monitored in accordance with the Councils Risk Management Strategy.
- Staff are fully aware of the requirements of their job, and have access to the appropriate Council rules and policies to assist them.
- Internal and External Audit reports and recommendations have been acted on.
- Reports from other review agencies have been acted on.
- Business arrangements are conducted in accordance with the law and proper standards.
- Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

- The service has in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to Corporate Governance is both adequate and effective.
 - A statement of assurance that improvement plans exist to rectify any acknowledged deficiency.
- (e) **Solicitor to the Council has responsibility:**
- Via his annual statement to give his opinion on the Council's compliance with relevant laws and regulations, and its legal obligations and requirements
- (f) **Cabinet has responsibility for:**
- All Executive Decisions in respect of functions delegated to it by the Leader of the Council
 - Setting robust and challenging targets and
 - Monitoring the achievement of key priorities
- (g) **Council has responsibility for:**
- Agreeing or amending the Policy Framework
 - Agreeing or amending the budget, including the borrowing or capital expenditure strategy and setting the Council Tax
- (h) **Scrutiny (Policy and Performance) Committee has responsibility for:**
- Scrutiny of budgets and major policies
 - Monitoring the achievement of key priorities
 - Scrutiny co-ordination
- (i) **The Governance Committee has a responsibility for:**
- Ensuring effective internal audit and internal control arrangements
 - Receiving the annual Internal Audit Programme of work
 - Receiving quarterly updates from the Head of the Audit Partnership on the assurance which can be placed against various systems and processes during the year
 - Reviewing the annual assessment at the year end.
 - Receiving the annual review of internal control
 - Receiving the annual constitutional review
 - Reviewing risk management arrangements
 - Receiving Quarterly Treasury Management Reports
 - Receiving the Annual Statement of Accounts
- (j) **Internal Audit has responsibility to:**
- Provide an independent annual statement on the systems of internal control, highlighting areas of concern
 - Report on the level of assurance in respect of the Council's internal control systems
 - Provide an overall Assurance Statement from the Head of the Audit Partnership. This is compiled from the Internal Audit work programme and a review of this Council's Corporate Governance arrangements.

5. **THIS YEAR'S REVIEW**

(a) **Council**

Article 15 of the Council's Constitution makes provision for the regular review of the Constitution by the Monitoring Officer. During 2016/17 the Responsibility for Functions and Proper Officer Appointments were reviewed. The key focus of the next review due in 2017/18 will be improving transparency and accessibility reflecting changes to the Council's organisational structure and the collation of changes made by decision making bodies such as Cabinet or council during the course of the previous year.

(b) **Cabinet**

Key Executive decisions were considered by the Cabinet, in particular relating to the budget and medium term financial plan, and the delivery of key regeneration priorities.

The Council's Quarterly Performance Report was received and reviewed quarterly. This examines our performance against agreed performance targets and our key priorities.

(c) **Scrutiny**

The Council's key priorities and Performance Indicators were reviewed regularly and challenged if necessary.

The Annual Report of the work of the Scrutiny Committees for 2016/17 was presented to the Annual Council Meeting on 17 May 2017. This identified sound governance arrangements, including an effective scrutiny process, which underpins the achievement of all the Council's corporate objectives.

(d) **Governance Committee**

The Governance Committee received quarterly updates from the Head of East Kent Audit Partnership on the assurance which can be placed against various systems and processes during the year, including reviews of internal controls, along with the annual assessment. The Committee kept a check on those areas that have not achieved expected levels of audit assurance.

This Committee also reviewed the effectiveness of the Council's risk management arrangements.

The Director of Governance and Solicitor to the Council are responsible for ensuring that the Constitution is reviewed regularly. It is not practical to undertake a full yearly review, so specific areas are selected each year. During 2016/17 a review was undertaken of the Responsibility for Functions and Proper Officer Appointments parts of the Constitution. The Governance Committee recommended the changes for approval by the Council. All are documented on our website.

The Annual Report of the work of the Governance Committee for 2016/17 was presented to the Annual Council Meeting on 17 May 2017. This gave a positive opinion on the system of internal control. The Governance Committee continued to be assured of the integrity and reliability of data held in financial statements. The

work undertaken by Internal and External Audit provided detailed assurance on those areas of the Council's work which were the subject of reports.

The assurances from the Director of Finance, Housing and Community, Director of Governance and Director of Environment and Corporate Assets and the work of Internal and External Audit together supported the Committee in forming their opinion of the financial statements, enabling them to agree to sign the 2015/16 accounts in accordance with the regulations. For this year, the same process provides the committee with the necessary assurances to approve the 2016/17 accounts at its meeting on 29 June 2017.

The submission of this Annual Report continues to enhance the effective communication of our governance processes.

(e) **Standards Committee**

The Standards Committee received quarterly reports on the progress of formal service complaints against the Council and lessons learned from those complaints.

There were no findings against Dover District Council from the Local Government Ombudsman in 2016/17.

Changes adopted by Council in January 2014, included a provision which allows Members to declare non-financial interests. The Kent Model Code of Conduct continues to be regularly reviewed in order to ensure that it remains fit for purpose. The ability to declare a non-financial interest has been welcomed by Members and has been utilised on several occasions to ensure transparency in decision-making.

During 2016/17 the Monitoring Officer received twelve complaints, ten cases related to Parish Councillors and two related to a District Councillor. No cases were subject to further investigation and the Standards Committee Hearing Panel did not meet during 2016/17 to conduct a hearing into a complaint that had been the subject of an investigation.

During the municipal year 2016/17 there were no requests for dispensation.

At the Annual Meeting of the Council on 17 May 2017, it was resolved that the Council no longer appoints a separate Standards Committee and that the functions of the Standards Committee are transferred to the Governance Committee and the revised functions of the Governance Committee are incorporated into the Council's Constitution.

(f) **Review of Internal Audit**

The effectiveness of internal audit is monitored jointly by the Monitoring Officer and the Section 151 Officer through:

- Quarterly review meetings with the Head of Internal Audit
- Sign off of the Audit Plan
- Review of the internal audit annual report
- Attendance at Governance Committee
- Review of individual audit reports
- Meetings with the S151 officers of the other partners

(g) **The Work of Internal Audit**

Based on their work undertaken during the year, the Head of the Audit Partnership considers that there are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control.

The report also considers that the Council can have very good level of assurance in respect of all of its main financial systems and a good level of assurance in respect of the majority of its Governance arrangements.

Many of the main financial systems, which feed into the production of the Council's Financial Statements, have achieved a substantial assurance following audit reviews. The report goes on to state that the Council can be very assured in these areas and that this position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have been raised.

There was one audit review where only a limited assurance level was given, with 94% of the reviews accounting for substantial or reasonable assurances on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance. During 2016/17 Internal Audit raised and reported to the quarterly Governance Committee meetings 70 recommendations, and whilst 77% were in the High or Medium Risk categories, none were so significant that they needed to be escalated at the time.

There were no fraud investigations carried out during 2016/17.

(h) **External Reviews**

There were no external reviews held this year. However, the Chartered Institute of Public Finance and Accountancy developed and then published in April 2017 a new 2016 Edition of the Delivering Good Governance in Local Government Framework. This Council has set out its commitment to the core and sub principles in a revised Corporate Governance Local Code which Council will be requested to adopt on 19 July 2017.

(i) **Training**

Comprehensive Training is provided at the outset for the new Council and this is refreshed during the four year term, to ensure that the councillors have the skills and expertise to make sound and effective decisions.

The officer performance appraisal includes a personal Improvement plan, where training and development needs are discussed and agreed. These are provided annually to the Director of Governance to help inform the training needs of the organisation, some of which will be delivered corporately via the Corporate Training Plan. In 2017/18 Heads of Service, Managers and Team Leaders are being offered the opportunity to gain an Institute of Learning and Management qualification, to help enhance their skills and knowledge as leaders in the organisation.

(j) **Members Code of Conduct**

The Principles of Good Conduct are contained within the Member Code of Conduct, minor changes including the inclusion of the provision for Voluntary Announcements of Other Interests were adopted by the Council in February 2014. During 2016/17

arrangements were made to advertise for the position of Independent Member, as the term of office for the current incumbent is due to expire in July 2017.

6. **SIGNIFICANT GOVERNANCE ISSUES DURING THE YEAR**

- (a) This Council has set out its commitment to the core and sub principles in a revised Corporate Governance Local Code. A detailed review of the actions taken to comply with the new principles has been undertaken and fully documented.
- (b) The Annual Reports of the Scrutiny, Governance and Standards Committees, provide a positive statement and opinion regarding the governance arrangements and the effectiveness of the internal control environment operating across this Council.
- (c) There were eight cases reviewed by the Local Government Ombudsman during 2016/17 but no maladministration was found.
- (d) The East Kent Corporate Information Governance Group finalised the Information Governance Framework and the associated suite of Information Governance Policies (16 in total). The new and revised policies were subject to staff consultation in the autumn of 2016, before adoption by the Cabinet on behalf of this Council in January 2017. These will be kept under regular review by the group.
- (e) The Notice of Forthcoming Key Decisions continues to publish key decisions to be taken by the Cabinet. Cabinet Reports are considered by Finance, Legal and Equalities Officers and then by CMT to ensure that outcomes are consistent with the Council's corporate direction.
- (f) Elections for the Police and Crime Commissioner were held on 5 May 2016 with the Chief Executive again being appointed as the Police Acting Returning Officer for Kent. This appointment meant that the Dover was responsible for compiling and the results across the whole County.
- (g) The EU Referendum was held on 23 June 2017 with a high turnout that impacted on the polling stations and election counts. To successfully deliver the election and referendum efficiently and effectively required the involvement of most Council staff on the days, whilst a significant number of key staff were seconded to election duties, before the dates. In addition to these two major elections, there were 12 District and/or Parish by-elections that were held during 2016/17.
- (h) A suite of performance indicator targets were approved by Cabinet at the start of the 2016/17 financial year and were then measured via the quarterly performance reports.
- (i) Following a service review, Cabinet approved that the Parks and Open Spaces service be brought back in house from 1 April 2017 to provide a more focused, efficient and effective service that delivers the priority outcomes required by the Council.
- (j) As part of the review of the East Kent Services Collaboration Agreement, the delegations to the East Kent Services Committee were amended to establish revised governance arrangements for East Kent Services and East Kent Human Resources.

- (k) The Council accepted an invitation from Public Sector Auditor Appointments (PSAA) to become a 'opted in authority'. PSAA will appoint an auditor for the Council for each of the five financial years from 1 April 2018.
- (l) The Council approved a Property Investment Strategy together with a supplementary capital budget of £200 million for the acquisition of commercial and residential assets for the economic regeneration and well-being of the District, for investment purposes.
- (m) In September 2016 the Court of Appeal held that the Council had acted unlawfully in its planning committee's failure to give legally adequate reasons in approving a planning application contrary to the recommendation of the planning officer. This is a somewhat obscure area of the law and the public interest in clarifying it is such that the Supreme Court has granted permission for the Council to appeal the decision. The hearing in the Supreme Court will take place in October 2017.

7. **IMPROVEMENTS DURING THE YEAR**

- (a) The Council obtained Public Sector Network (PSN) Compliance for 2016. This included IT Equipment, systems and software upgrades to ensure PSN compliance. Staff and members can work safely and securely from any location.
- (b) The revised East Kent Services Collaboration Agreement with Canterbury City Council and Thanet District Council for EKS and EKHR has been completed.
- (c) The revised Statement of Particulars and a Conditions of Service Handbook, including new and revised policies, was the subject of formal consultation with all staff during the autumn of 2016 and was formally approved by the General Purposes Committee in December 2016. The new policies and procedures came into force on 1 January 2017 and will be kept under review by the Conditions of Service Officer Group.
- (d) A forward looking action plan has been prepared for 2017/18 and this will be kept under regular review by the Director of Governance and reviewed by the Governance Committee at its December 2017 meeting.

8. **OPINION OF THE DIRECTOR OF GOVERNANCE**

I can confirm that the governance arrangements provide and continue to be regarded as fit for purpose in accordance with the governance framework and will ensure that that the implementation is monitored as part of the next annual review.

Signature: _____ Date: _____

David Randall
Director of Governance

9. **STATEMENT OF THE LEADER OF THE COUNCIL AND THE CHIEF EXECUTIVE**

We have reviewed the effectiveness of the Council's governance framework and noted the opinion and commitment of the Director of Governance. We sign this Annual Governance Assurance Statement on behalf of the Council.

Signature: _____ Date: _____
Councillor Paul Watkins
Leader of the Council

Signature: _____ Date: _____
Nadeem Aziz
Chief Executive

Governance Assurance Statement Action Plan – Backward Looking

Action Description	Evidenced by	Completed
The corporate plan to be been kept up to date and any necessary update is published	Corporate plan is up to date and published on the website	31/03/17
The Constitution and Code of Conduct are subject to an annual review and updated where applicable	The constitution has been reviewed and amendments agreed by Council	31/03/17
Business Plans prepared and published for each division	Business plans for the forthcoming year completed and returned to Corporate Services	31/03/17
Quarterly performance reports all reviewed by Cabinet and Scrutiny.	Performance reports published on the website.	31/03/17
	Performance reports reviewed by Cabinet and Scrutiny as per minutes published on the Website	31/03/17
Audit reports reviewed quarterly by Governance Committee and follow up reviews undertaken where the audit review show the expected levels of assurance had not been achieved.	Actions in Audit reports followed up	31/03/17
	The Audit Programme is approved by the Governance Committee and quarterly audit reports of the reviews and follow up audit undertaken are all reviewed by Governance Committee	31/03/17
Standards Committee have received reports on the progress of formal service complaints against the Council and lessons learned from those complaints	Standards committee review progress on all formal service complaints at least half yearly. Reports published on website.	31/03/17
Alleged breaches of the Members' Code of Conduct by District, Town and Parish Councillors are considered by the Monitoring Officer in a timely manner	Breaches of the Member Code of Conduct have been considered in a timely manner by the Monitoring Officer throughout the year.	31/03/17
Audit undertake their annual review of the effectiveness of systems of internal control	Audit have completed their annual review of the system of internal control and this forms part of their annual report	31/03/17
All digital service reviews that are planned are undertaken	Digital service reviews were held during the year as planned and changes implemented.	31/03/17
Governance Framework reviewed and any amendments approved	All amendments approved	31/03/17
The provision for clawback of MMI insurance claims is reviewed and is adequate	No further claim, the MMI provision is as per the MMI annual statement	31/03/17
Employee Code of Conduct Developed	Employee code of conduct was developed as part of the revised Conditions of Service and was adopted by the General Purposes Committee in	01/01/17

Action Description	Evidenced by	Completed
	December 2016 and launched on 1 January 2017.	
Officer Training Plan Developed	Corporate Training Needs 2016/17 was developed and delivered	31/03/17
Corporate Information Governance	Development of corporate information and security governance framework and policies for East Kent was delivered by the East Kent Corporate Information Governance Group and adopted by this Council in January 2017.	09/01/17
Audit Panel	At the Governance Committee on 3 December 2015, it was resolved that the Council would opt in to the sector lead approach in accordance with the Local Audit (Appointing Person) Regulations 2015. The Council will be asked to approve this approach during 2016/17.	30/11/16

Governance Assurance Statement Action Plan – Forward Looking

Action Description	Evidenced by	Due
The corporate plan to be been kept up to date and any necessary update is published	Corporate plan is up to date and published on the website	31/03/18
The Constitution and Code of Conduct are subject to an annual review and updated where applicable	The constitution has been reviewed and changes and amendments are agreed by the Governance Committee and Council	31/03/18
Business Plans prepared and published for each division	Business plans for the forthcoming year completed and returned to Corporate Services.	31/03/18
Quarterly performance reports all reviewed by Cabinet and Scrutiny.	Performance reports published on the website.	31/03/18
	Performance reports reviewed by Cabinet and Scrutiny as per minutes published on the Website.	31/03/18
Audit reports reviewed quarterly by Governance Committee and follow up reviews undertaken where the audit review show the expected levels of assurance had not been achieved.	Agreed high risk recommendations following audit reviews are followed up in a timely manner by management	31/03/18
	Quarterly audit reports covering audit reviews and follow up reviews are received by Governance Committee	31/03/18
Governance Committee have received reports on the progress of formal service complaints against the Council and lessons learned from those complaints.	Governance committee review progress on all formal service complaints at least half yearly. Reports published on website.	31/03/18
Alleged breaches of the Members' Code of Conduct by District, Town and Parish Councillors are considered by the Monitoring Officer in a timely manner.	Breaches of the Member Code of Conduct have been considered by the Monitoring Officer throughout the year.	31/03/18
Audit undertake their annual review of the effectiveness of systems of internal control.	Audit have completed their annual review of the system of internal control and the results are built in to their annual report	31/03/18
Governance Framework reviewed and any amendments approved.	All amendments approved by the Governance Committee and Council.	31/03/18
The provision for clawback of MMI insurance claims is reviewed and is adequate.	MMI provision is as per the MMI annual statement	31/03/18
Officer Training Plan Developed	Corporate Training Needs agreed and training plan delivered. ILM Training delivered for middle and senior management Induction Training for new starters.	31/03/18

Action Description	Evidenced by	Due
Corporate Information Governance	Periodic review of the corporate information and security governance framework and policies for East Kent.	31/03/18
Apprenticeship Levy	Compliance with the new Government requirements, including procurement of appropriate training for new apprentices.	31/03/18



Corporate Governance Local Code

Revised: May 2017

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Introduction

What Do We Mean By Governance?

Governance is about how we ensure that we are doing the right things, in an open, honest and accountable manner.

The International Framework: Good Governance in the Public Sector defines governance as:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

For Dover District Council, good governance comprises the systems, processes, cultures and values we follow so that we can pursue our vision and objectives effectively, delivering intended outcomes for our communities, whilst minimising the risks involved. We aim to meet the standards of the best and ensure that our governance arrangements are sound.

Good Governance runs through every level of the Council, it is owned by all stakeholders, including senior management and members. It forms the essential core values of the Council and should remain embedded in the culture of the Council.

Purpose of This Corporate Governance Local Code

Our Corporate Governance Local Code brings together legislative requirements, governance principles and management processes, providing a governance framework for the proper conduct of our business in a transparent and accountable way.

Delivering Good Governance

Good governance is important to all officers and members of this council. It is a key responsibility of our Leader, our Chief Executive, the Cabinet, the Corporate Management Team and the full Council, in particular the Governance Committee who are responsible for monitoring and providing assurance on our governance arrangements.

The Council has in place a process of continual review of its internal control arrangements. Rules are embedded into the Constitution of the Council, under the term Corporate Governance. Good Corporate Governance underpins credibility and confidence in the Council and this Code of Corporate Governance promotes accountability, effectiveness, openness, integrity and inclusivity in all of our business.

This statement, the systems that support it and the overall Corporate Governance arrangements are all subjected to an annual audit inspection by the Councils external auditors.

This Local Code also provides a mechanism for the continued development of Corporate Governance arrangements, summarising the principles and how this Council will comply with

the Corporate Governance Framework, with Risk Management and with Performance Management.

Testing our Arrangements

We test our arrangements by:

- Maintaining an up-to-date and effective local code of governance.
- Regular review of our existing governance arrangements against this code.
- Preparing an annual governance statement in order to report publicly on compliance with this code, over the past year.
- Reporting any planned changes in the coming period.

In order to review our current arrangements, we:

- Collect evidence of systems, processes and documentation that provide evidence of compliance;
- Collect evidence of the individuals and committees responsible for monitoring and reviewing systems, processes and documentation.
- Ensure management and reporting arrangements are in place to monitor governance effectiveness.
- Identify the issues that have not been addressed adequately and consider how they should be addressed.
- Prepare an action plan to address issues with responsibilities listed
- Prepare an action plan for the forthcoming year's evidence collection.
- Ensure appropriate risk and performance management arrangements are in place and are operating effectively.
- Ensure systems of control are working effectively.

Key elements of our Governance Arrangements

Compliance

- With relevant laws, regulations, policies and procedures
- Financial management requirements, including the role of the Chief Financial Officer (section 151 Officer)
- Effective arrangements to discharge the roles of Head of Paid Service, Monitoring Officer and Section 151 Officer
- Effective counter fraud and anti-corruption arrangements
- Governance/audit committee

Performance

- Clear channels of communication
- Commitment to openness and transparency
- Effective decision making, including the scheme of officer delegations
- Performance management and reporting
- Clear roles and responsibilities for officers and members
- Effective Overview and Scrutiny function
- Induction and development of members and officers

Background

The Principles of Conduct

The Committee for Standards in Public Life, the seven "Nolan" Principles form an important part of the Governance Framework for Members, Officers and partners.

The principles are:

- **Selflessness:** Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.
- **Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.
- **Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness:** Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and actions and restrict information only when the wider public interest clearly demands.
- **Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership:** Holders of public office should promote and support these principles by leadership and example.

Dover District Council's Member Code of Conduct

This Council's Code of Conduct incorporates the principles outlined above and also covers:

- General principles in relation to behaviour and equal treatment of people.
- Confidentiality and openness – the treatment of confidential information and access to information
- Criminal offences and bringing the authority into serious disrepute.
- The use of the authority's resources – the prohibition of members from using their office/position to obtain advantage or from using local authority resources for the benefit of political parties
- Decision making – the requirement for members to act reasonably
- Disclosable Pecuniary Interest– restrictions on participation in meetings by members with an interest in matters under consideration
- The registration of members' interest – and gifts and/or hospitality received.
- Other significant interest

Code of Conduct for Officers

The Council's Code of Conduct for employees provides staff with an effective ethical framework within which to work and aims to give the Council's communities confidence that the staff are working on their behalf in an appropriate manner. The Council's Conditions of

Service require all officers to abide with the Code of Conduct for employees. Officers should be aware and comply with all policies of the Council.

The public is entitled to expect the highest standards of conduct from all local government employees. The role of employees is to serve the Council in providing advice, implementing its policies and delivering services to the local community. In performing their duties, they must act with integrity, honesty, impartiality and objectivity, complying with the Seven Principles of Public Life.

Governance Principles

Development of the Principles of Governance

In 2007 the CIPFA/SOLACE joint working group issued a framework called *Delivering Good Governance in Local Government* together with an accompanying guidance note. This was aimed at helping Local Authorities develop and maintain their own codes of governance.

The guidance was updated in 2011 and 2012 to reflect the latest Accounts and Audit regulations. The Framework was further reviewed in 2016 and a revised edition published in April 2017.

The Framework positions the attainment of sustainable economic, societal and environmental outcomes as a key focus of governance processes and structures. The framework defines the principles that underpin the governance of this local authority.

Core and Supporting Principles

The seven core principles are taken from the International Framework: *Good Governance in the Public Sector* and help local authorities demonstrate good governance through their local codes.

Each of these principles translates into a range of specific requirements and they are reflected in this Corporate Governance Local Code in the following pages.

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement

Principles A and B permeate implementation of principles C to G.

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

Good governance is dynamic, and Dover District Council is committed to improving governance on a continuing basis through a process of evaluation and review.

Core Principle	Sub Principles
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p> <p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>	<p>Behaving with Integrity</p> <ul style="list-style-type: none"> • Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation • Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the seven Principles of Public Life • Leading by example and using the standard operating principles or values as a framework for decision making and other actions • Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively <p>Demonstrating strong commitment to ethical values</p> <ul style="list-style-type: none"> • Seeking to establish, monitor and maintain the organisation's ethical standards and performance • Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation • Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values • Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation <p>Respecting the rule of law</p> <ul style="list-style-type: none"> • Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations • Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements • Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders • Dealing with breaches of legal and regulatory provisions effectively • Ensuring corruption and misuse of power are dealt with effectively

Core Principle	Sub Principles
<p>B. Ensuring openness and comprehensive stakeholder engagement</p> <p>Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>	<p>Openness</p> <ul style="list-style-type: none"> • Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness • Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided • Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear • Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action <p>Engaging comprehensively with institutional stakeholders</p> <ul style="list-style-type: none"> • Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably • Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively • Ensuring that partnerships are based on: trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit <p>Engaging with individual citizens and service users effectively</p> <ul style="list-style-type: none"> • Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes • Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement • Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds

Core Principle	Sub Principles
	<p>including reference to future needs</p> <ul style="list-style-type: none"> • Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account • Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity • Taking account of the impact of decisions on future generations of tax payers and service users

Core Principle	Sub Principles
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p> <p>The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	<p>Defining Outcomes</p> <ul style="list-style-type: none"> • Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions • Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer • Delivering defined outcomes on a sustainable basis within the resources that will be available • Identifying and managing risks to the achievement of outcomes • Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available <p>Sustainable economic, social and environmental benefits</p> <ul style="list-style-type: none"> • Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision • Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints • Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs • Ensuring fair access to services

Core Principle	Sub Principles
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.</p>	<p>Determining the interventions</p> <ul style="list-style-type: none"> • Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided • Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts <p>Planning interventions</p> <ul style="list-style-type: none"> • Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets • Engaging with internal & external stakeholders in determining how services and other courses of action should be planned and delivered • Considering and monitoring risks facing each partner when working collaboratively, including shared risks • Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances • Establishing appropriate key performance indicators as part of the planning process in order to identify how the performance of services and projects is to be measured • Ensuring capacity exists to generate the information required to review service quality regularly • Preparing budgets in accordance with objectives, strategies and the medium term financial plan • Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy <p>Optimising achievement of intended outcomes</p> <ul style="list-style-type: none"> • Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints • Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage

Core Principle	Sub Principles
	<ul style="list-style-type: none"> • Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term • Ensuring the achievement of 'social value' through service planning and commissioning.

Core Principle	Sub Principles
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it</p> <p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<p>Developing the entity's capacity</p> <ul style="list-style-type: none"> • Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness • Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently • Recognising the benefits of partnerships and collaborative working where added value can be achieved • Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources <p>Developing the capability of the entity's leadership and other individuals</p> <ul style="list-style-type: none"> • Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained • Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body • Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority • Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: <ul style="list-style-type: none"> ○ ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged ○ ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis

Core Principle	Sub Principles
	<ul style="list-style-type: none"> ○ ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external ● Ensuring that there are structures in place to encourage public participation ● Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections ● Holding staff to account through regular performance reviews which take account of training or development needs ● Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Core Principle	Sub Principles
<p>F. Managing risks and performance through robust internal control and strong public financial management</p> <p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.</p> <p>Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	<p>Managing risk</p> <ul style="list-style-type: none"> • Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making • Implementing robust and integrated risk management arrangements and ensuring that they are working effectively • Ensuring that responsibilities for managing individual risks are clearly allocated <p>Managing performance</p> <ul style="list-style-type: none"> • Monitoring service delivery effectively including planning, specification, execution and independent post implementation review • Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook • Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible • Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement • Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements) <p>Robust internal control</p> <ul style="list-style-type: none"> • Aligning the risk management strategy and policies on internal control with achieving objectives • Evaluating and monitoring risk management and internal control on a regular basis • Ensuring effective counter fraud and anti-corruption arrangements are in place • Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor • Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: <ul style="list-style-type: none"> ○ provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment

Core Principle	Sub Principles
	<ul style="list-style-type: none"> ○ that its recommendations are listened to and acted upon <p>Managing data</p> <ul style="list-style-type: none"> • Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data • Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies • Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring <p>Strong public financial management</p> <ul style="list-style-type: none"> • Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance • Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Core Principle	Sub Principles
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p> <p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	<p>Implementing good practice in transparency</p> <ul style="list-style-type: none"> • Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate • Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand <p>Implementing good practices in reporting</p> <ul style="list-style-type: none"> • Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way • Ensuring members and senior management own the results reported • Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) • Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate • Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations <p>Assurance and effective accountability</p> <ul style="list-style-type: none"> • Ensuring that recommendations for corrective action made by external audit are acted upon • Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon • Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations • Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement

Core Principle	Sub Principles
	<ul style="list-style-type: none"><li data-bbox="683 262 1374 383">• Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

The Annual Governance Process

To be effective a governance framework needs to demonstrate that the Core and Supporting Principles are underpinned by evidence. This local code demonstrates how we will collect our evidence as part of an on-going process. Evidence is collected and held on the council's performance monitoring system throughout the year. This includes a detailed assessment against the core and sub principles identified in this code.

Annually, there is a review of the effectiveness of the Council's system of internal control and this informs the Annual Governance Statement. Dover District Council is required to prepare its annual governance statement to report publicly on the extent to which we comply with this local code of corporate governance.

This includes how we have monitored and evaluated the effectiveness of our governance arrangements in the year, and on any planned changes in the coming period. The annual governance statement is a valuable means of communication. It enables the Council to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes

The Director of Governance and Monitoring Officer provides an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework

The Leader and Chief Executive sign the statement on behalf of the Council.

The outcome of the annual review is reported internally to Cabinet and Governance Committee, and externally in the Annual Report with the published accounts.

Completing the Assurance Statement

The annual governance assurance statement will include the following information:

- An acknowledgement of our responsibility for ensuring there is a sound system of governance
- A description of the key elements of our governance framework.
- A description of the key elements of the review of effectiveness
- What the current year's review involved including a description of the processes that were applied.
- Significant governance issues, including an agreed action plan to deal with any issues.
- Improvements made during the year and how issues identified in the previous year's action plan have been addressed and resolved.
- An opinion by the Director of Governance and Monitoring Officer on the level of assurance that the systems and processes that comprise our governance arrangements provide.
- Statement of approval of the Leader and Chief Executive of the Council, including a commitment to monitor implementation as part of the next year's review.

The Completion Process provides the detailed stages of the Annual Assessment. The Chief Executive, Statutory Officers, other Directors, Internal Audit and managers across the authority all have a role to play in this assessment. The overall assurance given is not a

pass or fail. It is a narrative statement pointing to the Council's strengths and weaknesses and any areas for improvement.

Principles Adopted

Completion of the statement should flow from the normal business planning, review and reporting processes of the Council, its Governance Committee and the planned work of Internal Audit.

The Business Plan is one of the central mechanisms for each Head of Service managing their own area of activity and therefore sits at the centre of the Corporate Governance process.

Corporate Governance uses existing documents, procedures and frameworks. It also links to performance and risk reporting as poor service performance can reflect a failure of governance.

Effective internal controls are an important part of the Corporate Governance process. Through their audit assurance work, internal audit will provide an opinion on the effectiveness of the systems of internal control.

Preparation of the Annual Governance Statement

Data is collected throughout the year, including where relevant supporting documents. The action plan is prepared and monitored.

The opinion provided by the Director of Governance on the level of assurance that the governance arrangements provide and the Statement that the Leader and Chief Executive sign will be compiled from the evidence held:

Internal Control Opinion

- An Assurance Statement from the Head of the Audit Partnership. This is compiled from the Internal Audit review of this Council's Corporate Governance arrangements.
- The Director of Governance and Monitoring Officer and the Director of Finance, Housing and Community (S151 Officer) will review the internal control opinion and framework evidence, including service assurance statements, the audit review of Corporate Governance, the Constitutional review, Performance reporting, Risk management arrangements and the individual audit and risk management assessments.

Governance and Internal Control

- Comment and recommendations from the Director of Governance and Monitoring Officer, Director of Finance, Housing and Community (Section 151 Officer) and Solicitor to the Council, who have responsibility for overseeing the operation of the Governance Framework and the Corporate Governance Local Code.
- The Director of Governance's (Monitoring Officer) review of the Council's performance against the Governance Framework.
- The Director of Governance (Monitoring Officer) and Director of Finance, Housing and Community's (Section 151 Officer) review of the Effectiveness of Internal Audit.

- Confirmation from other Directors via a Service Assurance Statement that:
 - Risks have been identified. They are recorded and monitored in accordance with the Councils Risk Management Strategy.
 - Staff are fully aware of the requirements of their job, and have access to the appropriate Council rules and policies to assist them.
 - Internal and External Audit reports and recommendations have been acted on.
 - Reports from other review agencies have been acted on.
 - Business arrangements are conducted in accordance with the law and proper standards.
 - Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
 - The service has in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to Corporate Governance is both adequate and effective.
 - A statement of assurance that improvement plans exist to rectify any acknowledged deficiency.

- The Annual Report of the Chairman of the Standards Committee (to May 2017) on the ethical conduct of the Council.

- The Director of Governance (Monitoring Officer) and Solicitor to the Council's annual review of the Constitution.

- The Solicitor to the Council's annual statement giving his opinion on the Council's compliance with relevant laws and regulations, and its legal obligations and requirements.

- The Head of Paid Service annual statement giving his opinion on officers' compliance with the seven general principles of good conduct.

- The Head of Corporate Services annual statement giving his opinion on compliance with the Council's Risk Management Strategy.

- The Director of Shared Services annual statement giving his opinion of the Robustness of IT Systems.

Other processes and reviews

- Confirmation that Council policies are fully implemented.
- The annual Constitutional review has been undertaken.
- Checking that Council values and ethical standards are met.
- Ensuring Laws and regulations are complied with
- Publishing financial statements and performance information accurately and reliably.
- Confirmation that resources are managed efficiently and effectively.

- The External Auditor's Annual Audit and Inspection Letter, service assessments and other associated reviews.
- Confirmation that internal reviews are undertaken and findings are acted upon.
- Performance Reporting being seen to drive improvement.
- The Director of Governance and Monitoring Officer and the Director of Finance, Housing and Community (Section 151 Officer) will prepare a Draft Annual Governance Statement which will be considered by CMT and Cabinet who will provide the final review, evaluation and approval.
- The Governance Committee, acting as the Audit Committee will monitor the overall governance process and ensure that the process is robust and agreed actions identified are properly implemented.
- The final statements will then be signed before the end of June by the Leader and Chief Executive based on a clear evidence trail.

On-going monitoring and review is co-ordinated by the Director of Governance

- The contents of this code will be reviewed annually alongside the Annual Governance Assurance Statement and will be kept up to date in the light of changing circumstances. The Director of Governance (Monitoring Officer) will maintain the documentation but Members and Officers must own the whole process.
- In addition, review and monitoring will be undertaken during the course of the year. This will be co-ordinated by the Director of Governance (Monitoring Officer) and includes:
 - Monitoring the Corporate Governance arrangements and recommended courses of action by the Section 151 Officer, Monitoring Officer and Solicitor to the Council.
 - Internal Audit review of Corporate Governance arrangements and auditable activities identified through risk based audit plans.
 - Ensuring management ownership for the delivery of agreed objectives, within a Corporate Governance Framework, whilst managing effectively their identified opportunities and risks.
 - Performance measurement of governance arrangements through the collection of Governance data on the Performance Management System.
 - Performance measurement of key objectives and associated risks using agreed key and local performance indicators.
 - On-going review of Risk Management arrangements and recommended courses of action by the Head of Corporate Services, Section 151 Officer and Head of the Audit Partnership.
 - On-going monitoring and review of compliance with the Seven Principles of Conduct by the Monitoring Officer, Head of EK Human Resources, Solicitor to the Council, Head of Democratic Services and the Standards Committee.

- Ad hoc reviews initiated by the Chief Executive and/or Service Directors.
- Planned service reviews through a rolling programme of review.
- External Audit review of Corporate Governance arrangements and other auditable activities.
- The External Auditors will inspect the Annual Governance Assurance Statement, the evidence and position statements that support the statement, the risk management process and this Council's overall Corporate Governance arrangements.
- Mid-year updates are given to Governance Committee on progress in implementing actions identified in the annual statement.

The Director of Governance and Monitoring Officer, Director of Finance, Housing and Community (Section 151 Officer) and Solicitor to the Council have responsibility for overseeing the implementation and monitoring of the operation of the Local Code. The Head of the Audit Partnership has been given the responsibility for periodically reviewing the arrangements. Each of these officers also contributes to the annual assessment process and a clear separation of duties is required for these complementing but distinct roles.

Disagreements and differing opinions on the areas of non-compliance will be included within the assurance statement. They will be discussed and wherever possible agreement will be reached between signatories. An important part of the process is to develop an Action Plan to address any significant internal control issues disclosed in the statement. If agreement is not reached the Chief Executive and Leader will ultimately determine what is included, after taking advice as appropriate from the Monitoring Officer, Section 151 Officer, Solicitor to the Council and Head of the Audit Partnership.

EXAMPLE DIRECTOR'S STATEMENT - Dover District Council – Annual Governance Process

Director's Assurance Statement

The Council is required by law to include with the final accounts an Annual Governance Assurance Statement (AGAS). This statement also forms part of the Annual Governance Process.

The statement is intended to demonstrate to the public that the Council has sound governance arrangements in place including a sound system of internal control, designed to help manage and control business risk. It is considered to be an important way to demonstrate that the Council has good business practices in place, high standards of conduct and sound governance. It links to all the principles of good governance.

In support of the AGAS all Directors are required to complete, certify and return a statement of corporate responsibility. It is acknowledged that your divisions and their systems and processes can provide only reasonable and not absolute assurance that all risks have been identified, all assets safeguarded, all transactions properly authorised and recorded, and all material errors or irregularities either prevented or detected within a timely period.

The statement attached should therefore be completed 'to the best of your knowledge' and formally agreed with your Portfolio Holder.

Please return the certified statements, preferably in electronic format

Please ensure that the form is also signed by the relevant Portfolio Holder.

It is advised that you also keep securely a copy of 'the statement' made, together with a file of documentary evidence where possible. It is likely that the External Auditors will make further enquiries in connection with how the statement can be supported.

Thank you for your assistance.

David Randall
Director of Governance (and Monitoring Officer)

Mike Davis
Director of Finance, Housing and Community (and S151 Officer)

Question	Agreement Yes/No	Examples and Exceptions
In my department risks have been identified. They are recorded and monitored in accordance with the Councils Risk Management Strategy.		
Staff are fully aware of the requirements of their job, and have access to the appropriate Council rules and policies to assist them.		
The department has appropriate management and staff to enable objectives to be delivered. Performance is reviewed regularly.		
Resources at my disposal are used to achieve the Council's objectives. The level of resource is reviewed regularly.		
Suitable controls are in place to protect the Council's assets.		
Internal and External Audit reports and recommendations have been acted on. Reports from other review agencies have been acted on.		
Business arrangements are conducted in accordance with the law and proper standards		
The service has in place appropriate management and reporting arrangements to ensure effective Governance.		
Improvement plans exist to rectify deficiencies.		
Key performance targets and indicators are linked to the Corporate Plan.		

FINANCIAL STATEMENT

This statement is given in respect of the Council's (insert year) final accounts and refers to the state of my Division's operations up to the date of signature.

The information provided is given to the best of my knowledge in connection with the service areas for which I have responsibility. I have made appropriate enquiries with other officials of the Council and of information systems and records maintained and can confirm the following statements as detailed in the column below headed 'Accounts – Financial and Legal Implications'. However, where I am aware of such circumstances, I am able to provide further relevant information in the column headed 'Details and Action Plan':

Accounts - Financial and Legal Implications	Confirmation (Yes /No) and Evidence	Details and Any Actions Planned
In my division there are no contingent liabilities (see footnote 1 below) that are likely to have a significant effect on the finances or operations of the Council.		
In my division, there are no instances of non-compliance with laws or regulations that are likely to have a significant effect on the finances or operations of the Council.		
In my division, there are no post balance sheet events (see footnote 2 below) that have occurred that are likely to have a significant effect on the finances or operations of the Council.		
In my division, there are no pending claims, proceedings or litigation that are likely to have a significant effect on the finances or operations of the Council.		
In my division, there are no other significant transactions with related parties other than those already disclosed.		
In my division, there are no instances of known error, irregularity, including fraud, which are likely to have a significant effect on the finances or operations of the Council.		

Footnotes:

1. A contingent liability is in effect a possible obligation at the balance sheet date arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events which may not be within the Council's control
2. A post-balance sheet event is an event, both favourable and unfavourable, which occurs between the balance sheet date and the date on which the financial statements are approved by the Council.

Certified by, Signature:	
Name:	
Designation:	
Date:	

Risk Management

Introduction

Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives successfully. Although risk is generally associated with the possibility of suffering harm, loss or liability, in some situations confrontation of risk might also enable us to capitalise on opportunities.

Risk management is the process by which risks are identified, evaluated and controlled and is a key element of the framework of governance. It is about identifying, analysing, evaluating, responding and monitoring threats and opportunities with a view to minimising the chances of failure and maximising the chances of success. Risk management is about being risk aware and not risk averse.

Following the Priority Service Review during 2010, it was agreed that this Council would apply its Risk Management Strategy to monitoring risks at Corporate and Project levels. Corporate priorities will continue to be risk assessed as a fundamental part of the Governance process. Service/Day to Day risks are monitored as appropriate by individual departments.

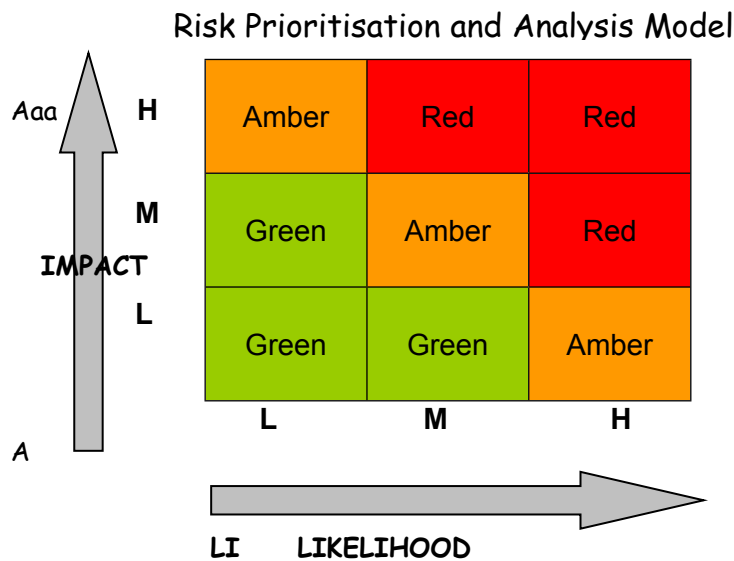
Risk Strategy and Approach

- Project Managers identify risks linked to the project objectives
- Heads of Service and Directors identify risks associated with corporate priorities within their service.
- Heads of Service and Directors identify risks arising from and within partnerships and other joint working arrangements.
- The Corporate Risk Register will comprise of Corporate and project risks.
- Ownership and responsibility is assigned to each risk identified.
- Each risk is recorded as an **inherent risk**, the management action necessary or already taken to mitigate the risk are recorded together with the subsequent **residual risk**.
- It is recognised that the risks will change over time as projects and Corporate Priorities develop, evolve and change. Through regular review of risk management arrangements it enables us to respond to these changes. The process is not a one-off exercise, but an ongoing task.
- Effective risk management helps us to deliver an appropriate balance between risk and control, ensure effective decision making, the better use of limited resources, greater innovation and consideration of positive risks (opportunities) as well as negative risks (threats) to the project.

Risk Management in Practice

- Risk Management is a five stage on-going process as follows:-
 - Identification
 - Analysis
 - Evaluation
 - Mitigation and control
 - Monitoring

- As part of risk analysis, an assessment should be undertaken of the impact and likelihood of risks occurring. Risks can then be plotted onto the following evaluation model:



- The following scoring guidance is provided to simplify the assessment process, provide consistency and assist in determining where on the grid various risks should be plotted:

IMPACT			
Key Risk Areas	High	Medium	Low
Communication and publicity	<ul style="list-style-type: none"> Remembered long term. Adverse national publicity 	<ul style="list-style-type: none"> Adverse headlines in social and local media 	<ul style="list-style-type: none"> Letters of complaint
Corporate Governance	<ul style="list-style-type: none"> Project will fail to be implemented. Governance Committee identify significant governance failings. Significant levels of fraud 	<ul style="list-style-type: none"> Project will be delayed. Adverse governance findings by the Cabinet/Scrutiny and Governance Committee. Extraordinary Review by External Auditors 	<ul style="list-style-type: none"> Limited Assurance following Audit
Efficiency and Savings	<ul style="list-style-type: none"> Failure to meet all anticipated efficiency targets Inability to recover shortfall on budget overspend 	<ul style="list-style-type: none"> Failure to exploit benefits of partnership working Budget pressures with poor performance 	<ul style="list-style-type: none"> Budget managed but performance is below that originally planned
Financial/Funding	<ul style="list-style-type: none"> Budget Overspend > £10k or 10% 	<ul style="list-style-type: none"> Budget Overspend up to £10k or 10% 	<ul style="list-style-type: none"> Budget Overspend up to £10k

IMPACT			
Key Risk Areas	High	Medium	Low
	<ul style="list-style-type: none"> Property loss or damage > £50k. Lack of external funding due to concerns over service delivery or project management Substantial loss or failure of investments 	<ul style="list-style-type: none"> Unaccountable short falls in stock/inventories or other assets. Property loss/damage in excess of £50k. Lack of provision when funding stream ends 	
Health & Safety	<ul style="list-style-type: none"> Potential for loss of life Large scale major illness Forced closure of offices/leisure facilities/block of flats due to H&S legislation HSE Investigation with Fine 	<ul style="list-style-type: none"> Major illness Serious injury - including disablement Forced close of smaller office/facility due to failure to comply with H&S legislation 	<ul style="list-style-type: none"> Broken bones/illness Partial closure of offices/facility
IT	<ul style="list-style-type: none"> Complete failure of IT system. Breach of licence. 	<ul style="list-style-type: none"> Temporary failure of IT system. Software problems. 	<ul style="list-style-type: none"> Minor problems with new software.
Project aims	<ul style="list-style-type: none"> Objectives of project not achieved. Time/costs greatly exceeded. 	<ul style="list-style-type: none"> Key Milestone missed. 	<ul style="list-style-type: none"> Minor delays/problems.
Personnel resourcing	<ul style="list-style-type: none"> Critical staff resignations. Inability to attract new staff 	<ul style="list-style-type: none"> Industrial action 	<ul style="list-style-type: none"> Some hostile relationships, minor non-co-operation
Service delivery	<ul style="list-style-type: none"> Long-term suspension of service. Failure of service. High level of public dissatisfaction. 	<ul style="list-style-type: none"> Short term reduction in service provision. Pockets of dissatisfaction. 	<ul style="list-style-type: none"> Low standard of service provision evidenced by messages of complaint
Statutory Responsibilities	<ul style="list-style-type: none"> Failure to enforce regulatory powers. Major fraud. Criminal Proceedings against the Council. Public Inquiry to review substantial 	<ul style="list-style-type: none"> Adverse finding by the Local Authority Ombudsman. Failure to test emergency plans. 	<ul style="list-style-type: none"> Minor breach

IMPACT			
Key Risk Areas	High	Medium	Low
	failure of a Council Service. Adverse findings of Standards Committee. No contingency planning.		

LIKELIHOOD			
	High	Medium	Low
Timing	Imminent	Next 12 months	After 12 months
Probability	<75%	25-75%	>25%

Risk Methodology

- Project and corporate risks are identified in line with the project and corporate priorities and objectives. Associated risks, threats and opportunities are determined for each objective and priority.
- Risks are evaluated in terms of likelihood and impact, which will determine where the axes or parameters on the model will be drawn. This will determine the categories each risk falls into.
- Each significant risk will be considered in context. The potential impact will be measured against the possible benefits and it will then be assessed as to whether it is worthwhile to continue with a particular objective if the risk outweighs the reward.
- Risk mitigation is the stage of the process when action can be taken to minimise the likelihood of risks occurring, or to reduce the severity of the consequences should it occur.
- The final stage of the risk management process will be the effective monitoring and review of the identified risks to ensure the successful delivery of the project or corporate priority. This process will also assess whether the nature of risk has changed over time.

Risk Management Strategy

The risk management policy of Dover District Council is to adopt cost-effective practices in the assessment of risks to ensure that they are eliminated or reduced to an acceptable level. This will help safeguard assets, employees, customers and the delivery of services to the local community.

The Council pursues a forward-looking and dynamic approach to delivering services to the local community and will not be averse to taking a degree of commercial risk. However, it will always exercise a prudent approach to risk taking and decisions will be made within the parameters of the Council's internal control arrangements. Of particular importance are the Financial and Contract Procedure Rules which ensure that the Council does not expose itself to risks above an acceptable level.

The risk management objectives of the Council are to:

- Help ensure that the Council's key corporate priorities are delivered
- Manage and mitigate project risk
- Be responsive to changing social, environmental and legislative requirements whilst being aware of the related risks and opportunities
- Take reasonable steps to prevent injury, damage and loss and reduce the cost of risk

These objectives will be achieved by:

- Defining roles and responsibilities of Officers and Members within the organisation in relation to risk management.
- Providing relevant training on risk management to relevant officers and Members of the authority
- Encouraging officers participating in other professional discipline groups to consider risk management.
- Making sure officers are made aware of risk management information received from insurers and other related sources.
- Maintaining a risk management framework to provide for:-
 - A useful and meaningful Corporate risk register
 - Appropriate incident recording to enable the analysis of risk data
 - The annual review of the risk management framework

Roles and Responsibilities

Members

- The Governance Committee has specific responsibility included in its terms of reference for providing independent assurance on the adequacy of the control and risk management framework and the associated control environment.
- The Governance Committee also has responsibility for the independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.

Executive and Corporate Management Team

- Corporate Management Team is responsible for identifying key risks as part of their strategic responsibilities.
- The Director of Governance will undertake an annual strategic risk review
- The Director of Governance, supported by the Head of Corporate Services has overall responsibility for ensuring the minimum agreed level of risk management is undertaken.

Directors/Head of Service

- Directors and Heads of Service in conjunction with members of their teams and other parties/partners (where applicable), will review and monitor project and corporate risks relating to their services.

Employees Generally

- Employees will be expected in the first instance, to refer risk management concerns to their line managers. Should such concerns remain outstanding, then employees can refer their concerns elsewhere as prescribed in the Council's Whistleblowing Guide.

Insurance

- The Director of Governance in consultation with the Corporate Services (Insurance Team) will:
 - Regularly review and advise upon the Council's insurance requirements and arrangements, and arrange insurance cover as necessary
 - Annually review the adequacy of the Council's internal Insurance Provisions and Reserves, and advise on action to be taken
 - Advise Officers and Members on insurance covers available and/or in place and advise Officers on claims procedures, and process claims arising
 - Assist in the development and provision of claims data to aid future risk control

Performance Management

Introduction

Dover District Council recognises that to achieve its corporate objectives and to deliver efficient services for the community, there is the need for effective performance management, supporting Council priorities and informing decision making, with links to the service planning and budget setting processes.

Performance Management Framework

Performance Planning

- Translates corporate objectives into targets for financial and Business plans.
- Drives performance by developing the most efficient working practices and sharing them across the Council.
- Preparation of plans and targets should engage all staff.

Performance Monitoring

- Links strategies, plans, people and performance and assess how well and efficiently we are performing.
- Helps us be transparent.
- Monitoring enables employees to see how their actions impact on the corporate plan, strategic objectives, Business plans and individual objectives by linking these all together.
- Converts plans into measurable goals and shows where we are providing good value.

Performance Reporting

- Reports on outcomes and gives early warning of potential failures
- Provides an opportunity to capture and share information and ideas
- Increases operational efficiency.
- Helps manage services effectively.
- Increases accountability to the community.
- Increases cross service awareness
- Recognises individuals' roles in the process and their contribution.

The steps involved in the performance planning process are:

Timescale	Activity
Continuous	The Corporate Plan is a continuously evolving document which includes the latest high level strategic priorities and priority actions for the Council.
September	Each September, Directors and Heads of Service identify their objectives for the next financial year. These will be closely aligned to those shown in the Corporate Plan. Interim Personal Performance Reviews held. Objectives and targets are adjusted if necessary.
October	Revenue Budget estimates are prepared for the coming year.

Timescale	Activity
November/December	Draft Business plans and service budgets are reviewed/finalised making sure that they align with the Corporate Plan and the budget. Business plans include service objectives; these can be measured by performance indicators where necessary. Shared services develop plans and targets ready for agreement by the respective Directors, DDC Client Officers and the relevant Portfolio Holder.
December	Business Plans and Budgets are agreed.
April	Personal Performance Reviews are also undertaken, reviewing individual performance against objectives. New personal targets are agreed. Corporate and Business Plans become live documents

The Corporate Plan

The Corporate Plan is a continuously evolving document which includes the latest high level strategic priorities and actions for the Council. It covers a 3 – 5 year span.

Top level, objectives and targets emanate from the corporate plan, cascading down to service divisions as a starting point for the preparation of service plans.

Service Strategies

The Council is responsible for a number of service strategies and plans. These are not annual documents but have a longer lifespan. Any targets and objectives resulting from these strategies are incorporated into the relevant Business Plan.

Business Plans

The Business Plan is one of the central mechanisms for each Director and Head of Service managing their own area of activity and therefore sits at the centre of the Corporate Governance process. It links corporate objectives, business objectives and personal objectives.

The Business Plan is the document that translates the strategic aims of the Council into service objectives and an annual programme of appropriately resourced activities. These are managed and monitored by the relevant Director and Heads of Service.

Each year Directors and Heads of Service are required to identify and review their key service objectives; these should also support and reflect corporate priorities. In developing objectives directors should consult with all their team members as well as portfolio holders. Service objectives need to be measurable using milestones or performance indicators.

Completed Business plans are forwarded to the corporate services team where targets are collated, ready for monitoring and publishing in the quarterly performance report. Corporate management team identify key service objectives and indicators for the Council, for Cabinet/Council consideration and endorsement.

Shared Services

Shared services also develop plans and targets which are agreed by their respective Directors, DDC Client Officers and the relevant Portfolio Holder. These are agreed by

Cabinet and in case of dispute the East Kent Services Board (Chief Executives Group) will mediate.

Performance Monitoring

Performance results are collated by Corporate Services into the Performance Report and reported quarterly to CMT and Cabinet. The report is then available for full scrutiny by the Scrutiny (Policy and Performance) Committee. It provides an up to date picture of the Council's current performance with commentary from the relevant Director.

Partnership Evaluation Criteria

The Council has adopted partnership evaluation criteria as part of this framework. The objective of the evaluation is to measure the effectiveness of partnerships from the Council's perspective. It is used to evaluate new partnerships, and as an annual review of high risk/profile partnerships.

The Performance Report

On a quarterly basis the following key areas of performance are monitored and reported via the performance report:

Service Delivery

This section reviews performance against key service targets. These are the indicators that are considered as key to the achievement of Corporate and Service objectives. If any are showing weakness or failure, details of the proposed recovery action will be provided.

Director's comments

A short summary by the Director of each division and from the Directors of shared services.

Performance Comments

A short explanation of any underperforming areas or performance indicators.

Key initiatives and Outcomes

Comments on specific projects/events which the director needs to bring to Members and public attention, especially those that will bring changes to the service delivery or have an impact on the current ways of working.

Concerns/Risks

A short description of anything which may affect performance, service delivery or output.

Financial Performance

This section provides a summary of budget and actual.

The Performance Report is published on the Council's website.

Quarterly Focus

A detailed analysis of a business area or specific topic.

The Quarterly Review Process

The Performance report is reviewed firstly by CMT who take an active interest in overall performance. They look to take action to address weaknesses, and highlight success. Action plans enable the process to concentrate on the action being taken to address weaknesses, rather than becoming involved in identification of the weaknesses themselves.

The report is then considered by the Cabinet Member with responsibility for Governance and then by Cabinet and Scrutiny, with recommendations from Scrutiny being made back to the Cabinet.

The On-going Review Process

Service Directors feedback performance information to the staff in their divisions. They discuss with their divisions and/or teams performance against service objectives, budget profile, and performance indicators.

Cabinet formally reviews key performance issues and CMT comments. This is scrutinised by the Scrutiny (Policy and Performance) Committee.

Performance Indicators

Performance indicators help to measure service objectives and targets and are one of the ways that the public can judge how well the Council is performing.

- All Services must provide their performance results to the Corporate Services Team at the end of each quarter. The results are then input into a data collection system ready for producing the Performance Report. An accuracy check is done on any indicators that do not look consistent or represent a significant variation from the target or previous reporting.
- Directors and Heads of Service are responsible for ensuring the accuracy of their published figures.
- If an outside body has set indicators Directors are responsible for ensuring the published results are calculated in accordance with those bodies' definitions.

Timing for Submitting Indicator Results

- Quarterly Results must be prepared for the quarters ending 30 June, 30 September, 31 December and 31 March for inclusion in the quarterly Performance Report. The results should be sent to Corporate Services as soon as possible after the quarter end. In case of difficulty, the Corporate Services officer needs to be informed.

Standards for Target Setting

- Targets are discussed and agreed by the Directors and Portfolio Holder(s) prior to inclusion in Business Plans. Corporate Management Team will review all targets to ensure that a realistic, but challenging level of performance improvement is being sought. Targets are then taken to Cabinet for approval. Arrangements for achieving targets should be built into Business Plans.

Acting on Performance Information

- All Directors and Heads of Service should be able to demonstrate that they have used their performance information in the management and improvement of their service. In particular to ensure that poor performance is acted on immediately and that good performance is developed to become excellent performance.
- Regular feedback should be given via weekly or monthly team meetings, 1:1 sessions, information on the Performance Information notice boards (as appropriate), and publication on the intranet.

Financial Performance

The Council's financial monitoring and reporting arrangements are an important part of performance management. Revenue and capital budgets are assigned to individual managers to enable them to deliver objectives and priorities of the Council and it is therefore vitally important that these are carefully managed.

Expenditure and income is monitored at budget manager level. There is an electronic budget monitoring system which the budget manager is expected to update. Members of accountancy staff keep a watching brief on expenditure and liaise with Managers where necessary.

The Accountancy team will look at the expenditure from a strategic viewpoint to ensure that the Council has the necessary financial resource to deliver its priorities. This will include the examination of budget pressures and commitments from a corporate viewpoint. Budget reports are then prepared for Management and Members.

Individual Performance Appraisal Review

The Council has an individual Performance Review process for employees that is designed to ensure everyone:

- Knows what they have to do and the standards expected of them in their job
- Knows how what they do fits in with the aims of the Council and their own particular service
- Has the skills to help them deliver excellent services
- Receives feedback on how they are performing in their job and identifies any training and development needs
- Knows how their personal objectives link to wider service and corporate objectives

The Performance Review process involves twice yearly interviews between an employee and their manager. These take place in September and April each year. The first meeting enables the results to be considered as part of Business Planning, Corporate Planning, budget setting and development of training plans. The second meeting is a mid year review that examines outturn performance for the financial year and reviews the objectives and targets set.

Alongside the formal Performance Review system is the need for regular dialogue with all team members, either on a 1:1 basis or in small groups to discuss performance issues. In

particular it will be important to celebrate performance successes and identify weaknesses. For poor or failing performance it is important to identify with team members the reasons why, and identify what action is necessary and any resource or procedural implications.

Quality Assurance, Audit & Risk Management

The Council has a number of systems and processes to check and monitor the way it carries out its activities. These include:

Audit and Performance Teams

The Council's Corporate Services Team and East Kent Audit Partnership provide an internal checking and monitoring role in relation to a number of key areas of work. One of their roles is ensuring that the Council is delivering its corporate objectives with the minimal level of risk. The Audit team assesses whether management has identified and acted on key business risks and that the internal control system is operating effectively. This work includes reviewing systems and processes.

External auditors annually review our financial statements and examine our governance arrangements. Their findings are reported in the Annual Audit Letter.