
NORTH AYRSHIRE COUNCIL

1 June 2021

Audit and Scrutiny Committee

Title: Annual Governance Statement 2020-21

Purpose: To seek approval of the Council's Annual Governance Statement for 2020-21 which will be included within the draft Annual Accounts.

Recommendation: That the Committee approves the draft Annual Governance Statement which is attached at Appendix 1.

1. Executive Summary

- 1.1 The Council's Annual Governance Statement outlines the governance framework which is in place and changes which have been made to strengthen the framework during 2020-21.
- 1.2 Approval of the Statement will ensure that the Council complies with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.

2. Background

- 2.1 North Ayrshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently, and effectively to achieve Best Value.
- 2.2 The Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 2.3 The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'.
- 2.4 The Local Authority Accounts (Scotland) Regulations 2014 require that local authorities prepare an Annual Governance Statement, in accordance with proper practices in relation to internal control, and that this Statement should be approved by the Audit Committee or equivalent.

- 2.5 Following approval of the Annual Governance Statement, it requires to be signed by the Leader of the Council and the Chief Executive prior to its inclusion within the Council's draft annual accounts.
- 2.6 The Annual Governance Statement, which is attached in full at Appendix 1 to this report, explains how the Council complies with the Code of Corporate Governance. It identifies the main components of the Corporate Governance Framework which are in place, including the system of internal control, and details the changes which have taken place to the framework during 2020-21.
- 2.7 The Statement also identifies the emergency changes to its governance framework which the Council has implemented in the early part of 2020-21 in response to the Covid-19 pandemic and some improvement actions which are planned to the governance framework during 2021-22. It concludes with an assurance statement by the Leader of the Council and the Chief Executive.

3. Proposals

- 3.1 It is proposed that the Committee approves the draft Annual Governance Statement which is attached at Appendix 1.

4. Implications/Socio-economic Duty

Financial

- 4.1 None.

Human Resources

- 4.2 None.

Legal

- 4.3 Approval of the Annual Governance Statement will ensure that the Council complies with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.

Equality/Socio-economic

- 4.4 None.

Environmental and Sustainability

- 4.5 None.

Key Priorities

- 4.6 Good governance arrangements help to underpin the delivery of the Council's key priorities.

Community Wealth Building

4.7 None.

5. Consultation

5.1 No consultation has been required during the preparation of the Annual Governance Statement.

Mark Boyd
Head of Service (Finance)

For further information please contact **Paul Doak, Senior Manager (Audit, Fraud, Safety and Insurance)**, on **01294-324561**.

Background Papers

None.

Annual Governance Statement

Scope of Responsibility

North Ayrshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently, and effectively to achieve Best Value.

The Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). A copy of the local code is available on the Council's website, or a copy can be obtained from the Chief Executive's Service, North Ayrshire Council, Cunninghame House, Irvine KA12 8EE.

This statement explains how North Ayrshire Council complies with the Code of Corporate Governance and meets the requirements of the 'Code of Practice for Local Authority Accounting in the UK: A Statement of Recommended Practice', in relation to the Statement on the System of Internal Financial Control.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services and the achievement of key outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively.

The Governance Framework

The main features of the governance framework that was in place during 2020-21 are below:

- The Cabinet was the key decision-making Committee, comprising the Leader of the Council, the Depute Leader and four members of the Administration, each with a specific portfolio of duties. An Education Cabinet comprised the same members and also included church and teaching profession representatives. The Audit and Scrutiny Committee, which is chaired by the Leader of the Main Opposition, was in place to consider all matters in relation to Internal and External Audit, Risk Management, Scrutiny and Performance, as well as receiving reports on the findings of external scrutiny bodies. A 'Policy Advisory Panel' consisting of all elected members assisted in the preparation of policy proposals for consideration and approval by Cabinet.
- Strategic decision-making is governed by the Council's key constitutional documents including standing orders, scheme of administration, scheme of delegation to officers and financial regulations and associated codes of financial practice. These were refreshed and approved by the Council in December 2020.
- The Council has six Locality Partnerships, covering Irvine, Kilwinning, the Three Towns, Arran, the North Coast and the Garnock Valley. Chaired by a local Elected Member, the Partnerships provide the opportunity for Elected Members, Community Planning Partners and local community representatives to consider the priorities for each area.
- The Council, together with NHS Ayrshire and Arran, established an integrated Health and Social Care Partnership (HSCP), which has been in place since April 2015. The HSCP has established a governance framework and an integrated senior management structure to support delivery of its key objectives.
- The Council's mission and vision and key priorities are outlined in the Council Plan 2019-2024 which is underpinned by a delivery plan and a range of performance indicators.

- A 'People Strategy' entitled 'Our People Connect' is in place to support the delivery of the Council Plan and its strategic priorities by focussing on developing the right culture and helping the Council transform to be a leaner, more efficient and higher performing organisation where people can develop and thrive.
- The Performance Management Strategy focuses very firmly on embedding a performance management culture throughout the Council. Regular reporting to Elected Members takes place and a wide range of performance information is available on the 'North Ayrshire Performs' website.
- The Council has adopted a 'Code of Conduct' for all of its employees. Elected Members adhere to the national 'Code of Conduct for Councillors' and a register of interests is in place.
- The approach to risk management is set out in the Risk Management Strategy. The Council's strategic risk register is refreshed annually and for 2020-21 was approved by Cabinet in March 2020.
- Each Head of Service has a Workforce Plan in place for their portfolio of services which considers challenges and issues, the transformation agenda and to support career development and succession planning.
- The Council has in place a development programme for all Elected Members. Leadership and Development programmes are also established for strategic leaders and first line and middle managers across the Council, through the Leadership Academy approach.
- The 'Our Time to Talk' approach is in place to ensure that managers and employees take time to discuss how each employee is getting on at work; this focusses on the employee's contribution to the team, their wellbeing and any development needs that contribute towards meeting the team's objectives or the employee's career aspirations;
- In order to ensure its asset management arrangements are robust, the Council has established the Corporate Asset Strategy. A Technology Strategy and a Digital Strategy are in place to support the ICT asset management plan and the transformation agenda. This asset management approach is underpinned by 6 themed asset management plans, in line with categories recommended by CIPFA: property, housing, ICT, open spaces, road and fleet. These asset management plans were last refreshed during 2019-20.
- A Capital Programme and Assets Group (CPAG), consisting of senior officers from across Council services and chaired by the Head of Finance, is in place. This group monitors the delivery of the Council's capital programme, helping to ensure that projects are delivered on time and within budget. The work of this group is supported by Service Project Boards.
- The Council has a long-term financial outlook, which was updated during the year to cover the period to 2030/31. This sets out the scale of the potential financial challenge and the approach to pro-actively address it, ensuring financial sustainability of the Council.
- The Council has Internal Audit and Corporate Fraud teams to carry out independent and objective reviews of governance and internal control arrangements and investigate allegations of fraud and error both within and against the authority.
- An Information Governance framework is in place which complies with the General Data Protection Regulation (GDPR), supported by a central team of staff within Democratic Services.
- The Council has a robust Corporate Health, Safety and Wellbeing Policy to help ensure it complies with health and safety legislation.
- An annual report is prepared for Cabinet by the Council's statutory Chief Social Work Officer.
- The Council has a two-stage Complaints Procedure, which provides a transparent and standardised process for customers who wish to complain and enables the Council to manage complaints more effectively and to identify any service improvements which may be required.

Although the governance framework has been in place at North Ayrshire Council throughout the year ended 31st March 2021, there has been a period of disruption due to the impact of the pandemic, most notably the suspension of North Ayrshire Council committees through April, May until early June 2020. Since this time committees have been delivered in a virtual setting.

The System of Internal Financial Control

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by Chief Officers within the Council. In particular, the system includes:

- Financial regulations and codes of financial practice.
- Comprehensive budgeting systems.
- Regular reviews of periodic and annual financial reports that indicate financial performance against the forecasts.
- Setting targets to measure financial and other performance.
- Clearly defined capital expenditure guidelines.
- Formal project management disciplines.

The Council's financial management arrangements conform to the governance requirements of the CIPFA statement: 'The Role of the Chief Financial Officer in Local Government (2016)'.

With regard to the entities incorporated into the Group Accounts, the Council is not aware of any weaknesses within their internal control systems and has placed reliance on the individual Statements of Internal Financial Control where appropriate.

Review of Effectiveness of the Governance Framework

North Ayrshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the framework is informed by the work of the Executive Leadership Team who have responsibility for development and maintenance of the governance environment, the annual report by the Senior Manager (Audit, Fraud, Safety and Insurance) and reports from the Council's external auditors Deloitte LLP, Audit Scotland and other review agencies.

The Section 95 Officer has overall responsibility for Internal Audit in North Ayrshire Council. The Senior Manager (Audit, Fraud, Safety and Insurance) is responsible for the management of the section and reports directly to the Section 95 Officer on all audit matters, with the right of access to the Chief Executive and Chair of the Audit and Scrutiny Committee. The Internal Audit section is fully resourced to deliver its 5-year audit plan and complies with the Public Sector Internal Audit Standards (PSIAS) in carrying out its audit work. Regular reports were made to the Council's Audit and Scrutiny Committee throughout 2020-21.

As detailed in the 'Internal Audit Charter' that has been adopted by the Council, the Internal Audit function has independent responsibility for examining, evaluating, and reporting on the adequacy of internal control. The Senior Manager (Audit, Fraud, Safety and Insurance) prepares an annual report, including an assurance statement containing a view on the adequacy and effectiveness of the governance, risk management and internal control frameworks. This was reported to the Audit and Scrutiny Committee on 1st June 2021.

The Internal Audit Annual Report 2020-21 highlights a number of findings by the Council's Internal Audit section which indicate some weaknesses in the internal control environment. Action plans are put in place to address control weaknesses on conclusion of each audit and implementation of audit actions is tracked on a quarterly basis by the Council's Audit and Scrutiny Committee. None of these are considered material enough to have a significant impact on the overall control environment and it is the opinion of the Senior Manager (Audit, Fraud, Safety and Insurance) that the Council's systems of internal control continue to provide reasonable assurance against loss.

Significant Governance Developments during 2020-21

A Best Value Audit Review was carried out by Audit Scotland and Deloitte LLP in January and February 2020. The report was presented to the Accounts Commission in June 2020 and to the meeting of North Ayrshire Council in September 2020; it is extremely positive and demonstrates significant improvement since the previous review in 2011, providing significant assurance that the Council complies with its statutory duty to secure Best Value. The key messages from the report include the following:

- The Council has a strong culture of continuous improvement
- There is a strong culture of collaborative working
- Despite significant economic and demographic challenges, the Council is performing well and is a frequent award winner and early adopter of national pilots
- The Council's arrangements for financial planning and management are good overall and it has significantly improved its asset management and procurement arrangements
- The Council is committed to community empowerment and is recognised by the Scottish Government and COSLA as a sector leader.

A new Long-term Financial Outlook (covering the period 2021/22 to 2030/31) and Medium-term Financial Outlook (covering 2021/22 to 2023/24) were approved by the Council in December 2020. These documents note the scale of the financial challenge which the Council faces and underpin the development of a balanced budget. The Revenue Estimates 2021/22 to 2023/24 and Capital Investment Programme 2021/22 to 2030/31 were approved by Council in March 2021.

To ensure ongoing compliance with Section 95 of the Local Government (Scotland) Act 1973, the Council appointed the Head of Finance as its statutory officer with responsibility for financial matters, following the retirement of the Executive Director (Finance and Corporate Support), who previously held this role. The Senior Manager (Planning Services) was appointed as the statutory Chief Planning Officer to comply with the new requirements of the Planning (Scotland) Act 2019.

The Council created a new temporary post of Head of Service (Recovery and Renewal) in May 2020 in order to provide additional capacity at Chief Officer level to respond to the pandemic and to co-ordinate the emergence from lockdown and the transformation of service delivery. A Recovery and Renewal Strategy was approved by Cabinet in September alongside a Covid-19 Financial Recovery Plan.

2020/21 was a 'shadow year' for the implementation of the new CIPFA Financial Management Code 2019, a key goal of which is to improve the financial resilience of organisations by embedding enhanced standards of financial management. The Council undertook an initial assessment of compliance with the FM Code and is satisfied that its governance and processes satisfy the principles of good financial management as outlined in the Code.

Covid-19 Governance Arrangements

On 11th March 2020 the World Health Organisation declared the outbreak of COVID-19 as a global pandemic and on 23rd March 2020 the United Kingdom entered a first period of lockdown. Further periods of lockdown were imposed during 2020-21.

From a general governance perspective, at the commencement of the first period of lockdown the Chief Executive formed an Emergency Management Team (EMT) which included the Leader of the Council, Executive Directors and Heads of Service. The meetings were initially held on a daily basis and all pandemic response decisions were considered, actioned and minuted.

The pandemic has had an unprecedented impact on the governance and operations of the Council. Meetings of the Council and its committees were suspended during April, May and June 2020. The Council's Scheme of Delegation to Officers allows the Chief Executive to consider and deal with any urgent issues, howsoever arising, subject to reporting back to the Cabinet for information at the first available opportunity, with this power exercised in consultation with the relevant Chief Officer and the relevant Elected Members. During the period that meetings were suspended, the Chief Executive undertook the following consultation prior to making a decision:

- Matters that would normally be considered by Council – consultation with the Group Leaders of the Labour, SNP and Conservative Groups and one of the Independent Members
- Matters that would normally be considered by Cabinet or another Committee of the Council – consultation with the Leader (for Cabinet), Committee Chair (other Committees) and Portfolio Holder (if different)
- Controversial Council matters – consultation with all Elected Members to understand whether there is likely to be support. 'Controversial' is as defined in the Scheme of Delegation.

In the interests of transparency, decision notices in respect of matters determined under the emergency governance arrangements are published on the Council's website on a fortnightly basis, together with the relevant officer report. Reports were made to Cabinet on 30 June 2020 and 8 September 2020 on all decisions made by the Chief Executive under emergency delegated powers.

Meetings resumed at the end of June 2020 and were held virtually for the remainder of 2020-21. These are either broadcast live or recorded and uploaded to allow the public to view proceedings while Covid restrictions prevent physical meetings with public attendance.

The impact on the Council's operations during the period of emergency included the following:

- Impact on the delivery of business as usual services
- New areas of activity as part of the national and local response to the emergency
- The funding and logistical consequences of delivering the response
- Assessment of the long-term disruption and consequences arising from the pandemic
- Planning for recovery and renewal of service delivery for the future

Planned Actions for 2021-22

The Council has a number of planned actions for 2021-22 which will help to further strengthen the governance framework:

- Building on the existing governance structure in place for the Transformation and Renewal Programme, which includes a Transformation Board and the Executive Leadership Team, work is being finalised to fully embed a corporate monitoring framework which will underpin the programme.
- Further strengthening of governance and monitoring arrangements across programme boards and the Executive Leadership Team, due to the scale and complexity of the Growth and Investment portfolio.
- Revising and relaunching the Whistleblowing Policy
- Revising the Locality Partnership Standing Orders
- Developing and implementing processes and software which will enable 'hybrid' Committee meetings to be held utilising both physical and remote attendance.

Assurance

Subject to the above, and on the basis of the assurances provided, we consider the governance and internal control environment operating during 2020-21 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our actions will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the governance and internal control environment and action plans are in place to address identified areas for improvement.

The impact of the COVID-19 pandemic has resulted in unprecedented impacts on the governance and operations of the Council throughout 2020-21.

Craig Hatton
Chief Executive
June 2021

Councillor Joe Cullinane
Leader of the Council
June 2021