

FINAL ANNUAL GOVERNANCE STATEMENT – 2020/21

1. INTRODUCTION

1.1 The Audit Committee considered the draft Annual Governance Statement for 2020/21 on 2 July 2021, ahead of its inclusion within the Financial Statements.

2. THE ANNUAL GOVERNANCE STATEMENT (AGS)

2.1 The Annual Governance Statement reflects predominately on matters arising during the financial year 2020/21, but must also reflect on any significant matters up until the date of signing by the Chief Executive and Leader of the Council.

2.2 A couple of updates have been made to the AGS since the draft that was presented in July:

- Reference has been made in note 2 of section 4 to the appointment of the Council's new Chief Executive
- Note 22 has been added to section 4 providing information on a recent issue; this has also been reflected in the updated action plan.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial consequences arising directly from this report.

4. EQUALITIES & DIVERSITY AND ENVIRONMENTAL MATTERS

4.1 There are no equalities & diversity or environmental matters associated with this report.

5. CRIME & DISORDER IMPLICATIONS

5.1 There are no crime and disorder issues arising directly from this report.

7. RECOMMENDATIONS

7.1 That the Audit Committee approves the Final Annual Governance Statement for the Financial Year ended 31st March 2021 as reported in Appendix 1.

For Further Information Contact

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Background Papers

Audit Committee July 2021 - Delivering Good Governance in Local Government Framework 2016

**THE ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2020/21**

1. Scope of Responsibility

New Forest District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards are adhered to and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It has a duty under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to best value. In discharging this overall responsibility New Forest District Council is required to have in place proper arrangements for the governance of the Council's affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

New Forest District Council has approved and adopted a Code of Good Governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". This Statement explains how New Forest District Council has complied with the Code and also meets the requirements of regulation 13 of the Accounts & Audit Regulations 2015 in relation to the publication of a statement of corporate governance.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, as well as the culture and values, by which the authority is directed and controlled and its activities, through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure in delivery of policies, achieving aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The Governance Framework

The good governance framework centres on the following 7 core principles:

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 optimize 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.

The Council is concerned to ensure that quality of service delivery is maintained at a time of financial constraint and uses a variety of mechanisms to assess this. This helps inform future service delivery.

The Council continually revises its Medium Term forecast according to latest information received around likely funding levels and expenditure increases. The Council's current strong financial position and on-going efficiencies programme (including the development of new income generation initiatives) will help protect front-line service delivery. The MTFP is underpinned by the healthy Budget Equalisation and General Fund reserves and these enable the Council to respond to changes accordingly.

During 2020, the world-wide Coronavirus COVID-19 pandemic has impacted global economies in ways that haven't been seen for decades. The UK's response has included an unprecedented package of financial measures to try and protect and restimulate the UK economy.

Local Authorities have been significantly impacted with disruption to services, enforced home-working, responding to new legislation and responsibilities and playing a key role in the testing and vaccination programmes.

Within this Council, a number of initiatives were introduced during 2020/21, including the provision of a shopping service to help the most vulnerable within our communities, support to open up the economy whilst not in lockdown, payments of significant levels of mandated and discretionary business support grants and financial support to those who have suffered financial hardship as a result of being required to self-isolate. The Council has also provided staffing and sites for vaccination roll out and COVID-19 testing.

Early in 2020, the Council's Cabinet agreed that the Council would need to re-cast the Medium Term Financial Plan, including the provision of an Emergency Budget for 2020/21 in light of the severity of the impact to the Council's budget. Four Task and Finish Groups were established to assist in the Council's recovery plan and meetings commenced in June 2020. Regular updates and Task and Finish Group recommendations were reported through to the Cabinet during 2020/21.

The Audit Plan for 2020/21 was flexed to take account of the new ways of working, and the new responsibilities placed on the Council (for example, Business Support Grants). The updated plan reflected on services which were under significant pressure, or performing duties outside of their normal service delivery.

Over the years, the Council has developed a number of successful joint or collaborative working arrangements with other public partners. This has continued into 2020/21 and includes arrangements with Hampshire County Council (in respect of Audit and Treasury functions) and a joint Information Office 'The Ringwood Gateway' between Ringwood Town Council, HCC and the District Council.

The Council's Constitution sets out how the Council operates, including the roles, responsibilities and relationships between Council, the Executive (Cabinet), Audit Committee and other bodies such as the Overview and Scrutiny Panels and Officers in respect of policy and decision-making processes. There is a comprehensive scheme of delegations to officers to ensure timely decision-making. The Constitution also sets out details on Codes of Conduct and key policies such as Financial Regulations and Contract Standing Orders as to Contracts. It is important that the Council operates efficiently and transparently and is accountable to the local people.

The Constitution is reviewed and updated where opportunities for improvement are identified.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes.

In 2016 CIPFA/SOLACE carried out a review of their framework to ensure that it still reflects the environment in which Councils are operating and to also reflect the International framework which had been developed by CIPFA and the International Federation of Accountants (IFAC) in 2014. As a result of their review in April 2016 CIPFA/SOLACE published a new framework document "Delivering Good Governance in Local Government Framework 2016 Edition" with the key focus of governance processes and structures centring on the attainment of sustainable economic, societal and environmental outcomes. Council approved the revised code in April 2017 which follows the recommended text in the CIPFA/SOLACE framework.

In April 2021, a new Council Leader was appointed. The newly appointed Leader was previously Deputy Leader and has been a member of the Cabinet for several years.

During 2020/21, the chancellor announced that the Solent Freeport bid would move onto the next stage with the Solent LEP taking a lead role on the development of the full business case. A new board has been established with the key stakeholders, with the Council's Leader taking a seat on the board.

4. Review of Effectiveness

The 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 effectiveness is informed by the work of senior statutory officers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

This Council has always maintained a strong internal control environment and sees risk management as an integral part of everyday management. It has long established principles on the way its business is conducted enabling good governance and control of risk. Factors that influence the control environment include; integrity, ethics, operating style and the way management and members assign responsibility and authority.

A summary of the review activities undertaken during 2020/21 are included below:

1. A number of Council policies were reviewed or new Plans/Policies implemented including:
 - Shared Ownership Scheme
 - The Local Plan
 - Statement of Community Involvement (how the Council engages the public on planning applications)
 - Private Sector Housing Strategy
 - Local Connection Restriction Policy
 - Affordable Rent Policy
 - Housing Asset Management Strategy
 - Numerous Business Support Grant Policies
2. The Council's Executive Management Team remained unchanged throughout 2020/21. Subsequently, in April 2021, Council agreed to a request made by the deputy Chief Executive for early retirement on the grounds of efficiency. The Chief Executive then carried out a review of executive areas of responsibility and made some changes to ensure every service fit with an executive head. Following these changes, in May, the Chief Executive confirmed he would be retiring in August 2021. The Council's new Chief Executive, Kate Ryan, commenced employment with the Council in December 2021.
3. One of the requirements of the GDPR is to appoint a Data Protection Officer (DPO). The role of the DPO is to oversee the Council's compliance with GDPR and provide advice in relation to the law. The Service Manager for Legal held the DPO position until his departure from the

authority in May 2021. The DPO position is now held by a Solicitor within Legal Services who holds the EU General Data Protection Regulation Practitioner qualification.

4. The Council's arrangements for financial management and reporting are sound and are well documented. Proposals for asset maintenance expenditure are supported by a business case as are new requests for revenue resources. These are scrutinised initially by EMT and the relevant Service Portfolio Holder prior to inclusion within the budget setting process. The financial planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final budgetary proposals and the council tax levels are considered and approved by Council each year.
5. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements are in place with an annual report of work carried out presented to Council.
6. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively and therefore significant emphasis is placed on continuous improvement and development.
7. The responsibility of S151 functions sits with the Chief Finance Officer (from May 2021 title updated to 'Executive Head of Financial (S151) and Corporate Services') who undertakes that statutory role. The Executive Head of Governance and Housing is the Monitoring Officer, which is also a statutory role. All committee reports are reviewed by members of the Executive Management Team, as well as being provided to the Executive Head of Governance and Housing (who is also the Council's Solicitor), prior to any decisions being made. This safeguards the Council to ensure that decisions are taken lawfully and that risks are properly considered.
8. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review of the Council's Financial Regulations was completed during 2017/18 with the new regulations presented to and endorsed by the Audit Committee. The new regulations went live during April 2018, following approval by full Council. The next review will take place in 2021/22 to ensure they remain fit for purpose.
9. Performance Management ensures strategic monitoring with a focus on organisational and service based indicators, reflecting the aims and objectives of the Corporate Plan. A review of the Council's Performance Management Framework commenced during 2019/20 and was finalised in 2020/21. Portfolio Holder dashboards were presented to Overview and Scrutiny Panels during 2020/21 increasing transparency of performance and risks to service delivery.
10. The Audit Committee meet regularly and training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment, in accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.
11. The Council reviewed its insurance and risk management arrangements and employed a new officer during 2019/20 with responsibility for these respective areas. The Council's approach to risk management has been long standing, although the annual review originally scheduled for March 2020 was temporarily postponed. The Audit Committee attended a Strategic Risk Management training session in January 2021 delivered by a third party from the Council's insurers. The Council's Strategic Risk Register was fundamentally reviewed during 2020/21 to take account of the worldwide Pandemic. An updated version was reviewed by the Audit Committee in January 2021 and subsequently adopted by the Council during the year. The

document remains under regular review as a result of the constantly changing national and international situation.

12. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Chief Financial Officer's responsibilities, to maintain proper control over the Council's financial affairs, as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer and the Executive Management Team. The Committee has also received reports and updates from the External Auditor.
13. The Internal Audit function is provided by the Southern Internal Audit Partnership (operated by Hampshire County Council) and accords with the Public Sector Internal Audit Standards. Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year.
14. The Principal Auditor's annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in his overall opinion that:
 - sufficient assurance work has been carried out to allow a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment
 - New Forest District Council's framework of governance, risk management and control is 'Reasonable' and audit testing has demonstrated controls to be working in practice
 - where weaknesses have been identified through internal audit review, Internal Audit have worked with the Council's management to agree appropriate corrective actions and a timescale for improvement.
15. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.
16. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. The Council is a member of the Cyber security Information Sharing Partnership (CISP) and has signed up the South East Government Warning, Advisory and Reporting Point (providing information, knowledge and alerts on threat and incidents. The Audit Committee received an update during 2019/20 on cyber risks, and as a result of an adopted recommendation from that meeting, has since taken out a cyber insurance policy. ICT also reviewed the ICT Security Policy during 2020/21, to take specific regard of the increased home working experienced from March 2020.
17. Internal Audit has reported a 'Reasonable' opinion on the overall control environment. One limited assurance audit opinion was given and monitoring of progress against the management actions of this audit will continue into 2021/22. The following audit area has previously received high priority recommendations:
 - Payment Card Industry Data Security Standard Accreditation
 - Work has been ongoing during 2020/21 and a single payment process has been identified as a blocker to compliance. Work has commenced on addressing this process.
18. 2020/21 was the first full year of the Council using the new Finance System, as implemented during 2019/20. The new system has had coverage through the internal audit plan and 'Reasonable' assurance has been given.
19. The implementation of the new finance system in 2020/21 saw the introduction of revised workflow (approval) processes for the raising and payment of invoices. These were tested by internal audit during the year and no weaknesses identified.

20. A data breach was reported to the Council in during the period covered by this AGS. The Council's two statutory officers immediately worked closely together on a review of information governance across the Council and the suggested actions were reported to, and endorsed by the Executive Management Team. EMT will monitor the effectiveness of the actions put in place during 2021/22.
21. In February 2021, Council made a decision to award an operating contract to Wealdon Leisure Ltd, trading as Freedom Leisure, to commence on 1st July 2021 for an 11 year period, with the option to extend for a further 4 years. The operating agreement has been agreed by both parties and as included within that agreement, the Council and the operator will both have representation on a new partnership board which will be responsible for ensuring the operator delivers on the Council's service specification and performance indicators.
22. A matter concerning the volume of telephone calls being recorded and securely stored by the Council came to light during 2021, since the initial draft of the Annual Governance Statement. Call recording was stopped immediately, and following approval from the Executive Management Team, all recordings were deleted from secure storage. The Service Manager for ICT working collaboratively with the Information Governance Officer presented options to the Executive Management Team who confirmed that a policy of recording by exception would be implemented. The Information Governance Officer is now working with Service Managers across the organization to assess the legal basis of call recording in the areas where call recording has been identified as necessary.

5. Financial Management Code

In December 2019, CIPFA introduced a Financial Management Code. The driver for this was the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time it sets out the standards of financial management for local authorities.

The underlying principles that inform the Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. Each local authority must demonstrate that the requirements of the Code are being satisfied. This is a collective responsibility of elected Members, the CFO and their professional colleagues in the Leadership Team.

Local authorities should be able to demonstrate they are working towards full implementation for the first full year of compliance in 2021/22.

The Section 151 Officer will produce a report on the Financial Management Code to the Executive Management Team and then to Audit Committee during 2021/22. This report will include an appendix detailing the CFO's assessed level of compliance with the Code.

6. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following significant areas will be included in the action plan:

1. Payment Card Industry Data Security Standard Accreditation
2. Information Governance
3. Financial Management Code
4. Call Recording

7. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2021 and up to the date of approval of the annual report and statement of accounts.

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

Signed:

Leader of the Council

Signed:

Chief Executive

Date:

Date:

Annual Governance Statement Action Plan for 2021/22

Heading	Update / Action	Responsible	Target
PCI Accreditation	<p>Work is underway on PCI accreditation in light of the recent changes to the Finance System and Telephone Payment System.</p> <p>Action: to finalise the process in relation to seeking PCI accreditation</p>	Chief Finance Officer	March 2022
Information Governance	<p>Following the review conducted by the Council's Monitoring Officer and Section 151 Officer, a new Information Governance support team was established early during 2021/22.</p> <p>Action: EMT to be regularly updated on progress made by the new team in ensuring compliance with Data Protection and GDPR.</p>	Chief Finance Officer / Executive Head Governance and Housing	March 2022
Financial Management Code	<p>Following the introduction of the CIPFA Financial Management Code, the Council's CFO will undertake an assessment of it's compliance with the code.</p> <p>Action: CFO to carry out a review and report to EMT / Audit Committee</p>	Chief Finance Officer	March 2022
Call Recording	<p>A review of departmental call handling, to consider the legal basis for the recording and retaining calls.</p>	Chief Finance Officer / Executive Head Governance and Housing	March 2022