

# **PEMBROKESHIRE COUNTY COUNCIL**

## **ANNUAL GOVERNANCE STATEMENT**

**2015-16**



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## 1. **Scope of Responsibility**

The 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. The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs which facilitate the effective exercise of the authority's functions and which includes arrangements for the management of risk and ensuring a sound system of internal control.

The Corporate Governance Committee approved this Council's Local Code of Corporate Governance at its meeting on 29<sup>th</sup> June 2011. The adopted Code is consistent with the principles of 'CIPFA/SOLACE Framework', 'Delivering Good Governance in Local Government'. A copy of the adopted Code is on our website: [www.pembrokeshire.gov.uk](http://www.pembrokeshire.gov.uk) or can be obtained from the Chief Finance Officer. The Council's Local Code of Corporate Governance will be updated in 2016-17 to reflect the CIPFA guidance 'Delivering Good Governance in Local Government: Framework (2016 Edition)', and the requirements of the Well Being of Future Generations Act (Wales) 2015.

This Statement explains how the Council is complying with the Code and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014 and related practice.

## 2. **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, 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 achievement 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 to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the authority during the financial year ended 31<sup>st</sup> March 2016 and up to the date of approval of the 2015-16 Statement of Accounts.

### **3. The Governance Framework**

The key elements of the Authority's governance framework are summarised below.

#### **3.1 Objectives, Policy and Decision Making**

##### Single Integrated Plan 2013-18

The Single Integrated Plan is the overarching plan for Pembrokeshire which outlines public, private and voluntary sector activity in Pembrokeshire over the period 2013-18.

The Single Integrated Plan is for everyone who lives in, visits, or has an interest in Pembrokeshire. It has been prepared for a range of audiences; for the people of Pembrokeshire, for the organisations that serve Pembrokeshire and as a means of communicating our priorities to external agencies and the Welsh Government.

The Single Integrated Plan was prepared by Pembrokeshire's Local Service Board (LSB) and its associated partnerships. The LSB is made up of senior representatives from Pembrokeshire County Council, Dyfed Powys Police, Hywel Dda Health Board, Pembrokeshire Association of Voluntary Services, Welsh Government, Milford Haven Port Authority, National Resources Wales, Pembrokeshire Coast National Park Authority and Mid & West Wales Fire & Rescue Service. It was established with the purpose of providing collaborative leadership and to identify opportunities for service providers to work more closely together. A range of other organisations support the work of the LSB.

In accordance with the Well Being of Future Generations (Wales) Act 2015, the LSB became the Pembrokeshire Public Service Board (PSB) in April 2016. By 2018 the Pembrokeshire PSB will be required to prepare and publish a Local Well-being Plan stating why the PSB feels their objectives will contribute within their local area to achieving the well-being goals and how it has had regard to the Assessment of Local Well-being in setting its objectives and steps to take. This will replace the Single Integrated Plan.

The overall aim and vision for Pembrokeshire is "*To ensure that Pembrokeshire is prosperous and that it remains vibrant and special*". Following a Single Needs Assessment, six outcomes were identified that partners have agreed to work towards over the next five years (this will be subject to review as part of Assessment of Local Well-being in preparation of the Local Well-being Plan):

- Children, young people and families have the opportunity to fulfil their learning potential and to live healthy and happy lives;
- Pembrokeshire has a competitive, productive and sustainable economy;
- People in Pembrokeshire enjoy an attractive, sustainable and diverse environment;
- People in Pembrokeshire are healthier;
- Children and adults are safeguarded;
- Communities in Pembrokeshire feel safe.

The Authority adopted a Public Engagement Strategy in November 2012. The Strategy demonstrates the Council's commitment to putting public engagement at the core of the design and delivery of services, policies and programmes. It provides clear guidance to Heads of Service and managers and those who routinely undertake public engagement activities. The Authority also publishes an annual report on its public engagement work, illustrating the wide variety of consultation and engagement work being undertaken across the Authority and capturing examples of good practice.

An annual Engagement Action Plan is developed and taken forward by the Pembrokeshire Local Service Board with support from the Council's Partnership and Scrutiny Support Team and Communications Teams from main partner organisations.

In addition to the work undertaken to inform the Single Integrated Plan, the Council commenced a series of Public Engagement events during 2014 which continued throughout 2015 and were independently facilitated by Participation Cymru. This is part of an ongoing dialogue with the Community and Employees to review the vision and guiding principles of the Council and to inform the transformation of Council services to address current and future budget pressures.

A joint Member and Officer Visioning Seminar and Workshop took place in April 2016, from which a draft vision was developed and will be recommended to Council for approval in July 2016.

### Improvement Objectives

The annual improvement objectives are selected to reflect learning from previous years and advice received from regulators. The objectives selected for 2015-16 were:

- School Improvement
- Vulnerable Children
- Regeneration of Town Centres
- Reconfiguring Adult Social Care Services
- Tackling Poverty

### Decision Making

The Council's Constitution codifies how the Council operates and provides the framework for its decision making processes, including delegation arrangements, and sets out the detailed procedures and codes of conduct by which Members and Officers operate to achieve Council objectives. A review of the Constitution, including the Modular Constitution, is currently being undertaken with the first phase being referred to Council in July 2016 and the second phase being undertaken in Autumn 2016.

Under the Constitution a Leader and Cabinet form the decision making Executive. Their decisions must be in line with Council objectives, and are subject to examination by a number of Overview and Scrutiny Committees. Meetings of the Council, Cabinet and other Committees are open to the public except where confidential or exempt matters are being disclosed. Members are required to disclose personal interests where appropriate and withdraw from discussion and correspondence where they also have a prejudicial interest. The Constitution includes a right to 'call-in' Cabinet decisions to an Overview & Scrutiny Committee.

A Standards Committee made up of County Councillors and "non-elected" independent persons is the regulatory body for overseeing the conduct and standards of behaviour of Members.

All reports considered by the Council, Cabinet and Committees and the Minutes of decisions taken are, unless confidential or exempt, published and made available on the Council's website.

In addition, Senior Officers of the Council can make decisions under delegated authority. The Council has an Officer specific to the statutory role of, and designated as, Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by the Council, Cabinet, its Committees and Officers, and providing support and advice on the maintenance of ethical standards and advising the Council's Standards Committee. Further, a Head of Legal and Committee Services manages and oversees legal matters and the operation of Council, Cabinet and Committee proceedings.

### **3.2 Compliance with Established Policies, Procedures, Laws and Regulations**

The role of the Council's Monitoring Officer includes a responsibility to investigate and report upon allegations of contraventions of established policies, procedures, laws and regulations. The Head of Legal & Committee Services has overall responsibility for legal issues and to provide advice where appropriate.

The Chief Finance Officer as Council's Section 151 Officer has overall responsibility for financial administration and as such for providing advice, guidance and instruction in respect of financial matters.

The Council has an Internal Audit Service whose role includes reviewing compliance with established policies and procedures to determine the adequacy and effectiveness of the internal control environment, and Policy and Performance Sections providing support and advice.

New employees are subject to appropriate induction training which provides information on a range of policies, procedures and regulations including those relating to financial control, information governance, security, personnel and codes of conduct.

The Council also has in place a Standards Committee and Overview and Scrutiny Committees. A new Overview and Scrutiny Framework is being introduced in September 2016.

The Audit Committee, made up of County Councillors and a "non-elected" independent Member, considers matters related to the authority's financial affairs and the appropriateness of its risk management, internal control, corporate governance and internal/external audit arrangements. The Audit Committee provides the forum for formal and transparent scrutiny of these arrangements, whilst improving oversight and accountability of the Authority's governance arrangements. Whilst the Audit Committee will review the authority's Annual Statement of Accounts, responsibility for their approval remains with the Corporate Governance Committee. Following a recommendation by Wales Audit Office as part of the Corporate Assessment, it is proposed that the Audit Committee and Corporate Governance Committee merge, this will be referred to Council for a decision.

The Democratic Services Committee considers matters related to democracy. The Council has designated the Head of Legal and Committee Services as the statutory officer "Head of Democratic Services".

In addition there are external inspections from a range of bodies, including external auditors.

### **3.3 Financial Management**

The Chief Finance Officer is responsible for the proper administration of the Council's financial affairs and ensuring the financial arrangements put in place conform with the governance requirements of Cipfa's *Statement on the Role of the Chief Financial Officer in Local Government*.

Budget and Policy Framework Procedure and Financial Procedure rules are incorporated into the Council's Constitution. The Council also relies on bids for external grant funding which presents risks as well as opportunities and may have complex relationships.

During 2015-16 the Integrated Report was introduced incorporating Financial, Internal Control, Business Risk Management and Performance Data, which has been reported quarterly to Cabinet and Overview & Scrutiny Committees. This has enabled Cabinet and Overview & Scrutiny Committees to provide greater challenge in respect of services and identify where corrective action is required.

The Council's Treasury Management Governance arrangements follow professional practice in accordance with the latest Code and are subject to regular review by the Treasury Management Panel.

Annual Statements of Accounts provide a snapshot of the Council's financial position as at 31<sup>st</sup> March and are subject to mandatory external audit, which is undertaken by the Wales Audit Office. This process also allows for annual public inspection.

In order to inform the Cost Reduction and Efficiency Programme a series of Public and Member engagement sessions took place during the summer and autumn of 2015. This is part of an ongoing process of working with the Public, Members, Management and Employees to inform the programme.

### **3.4 Financial Control**

The system of internal financial control is based on a framework of regular budget and management information, financial regulations, standing orders relating to contracts and other procurement management arrangements, procedure rules and standard financial instructions, together with administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability which are subject to review by the Internal Audit Service.

A fraud risk register is maintained by the Internal Audit Service based on local knowledge of services and the emergence of widely identified fraud risks. This is subject to ongoing review to ensure that it remains current and is used to focus counter fraud work undertaken by the Internal Audit Service.

The Counter Fraud and Fraud Awareness work carried over the last three years has increased the number of referrals of purported fraud and irregularity for investigation. This has resulted in a strengthening of controls in areas where investigations have been undertaken. The continued budget pressures may increase the likelihood of fraud activity as incentive, opportunity and rationalisation of behaviour may become more apparent. This places greater emphasis on counter fraud work both as a deterrent and to identify and pursue fraud in accordance with the Authority's zero tolerance policy.

### **3.5 Promoting Values, Standards and Conduct of Behaviour**

There is a framework related to standards and ethics and this includes:

- Codes of Conduct for Officers and Members
- Equal Opportunities Statement
- Registers of personal and business interests and related procedures for other declarations
- Whistle-blowing Policy
- Corporate Complaints procedure
- Code of Practice for considering planning applications and appeals
- Counter Fraud, Corruption and Bribery Strategy
- Standards Committee
- Designated Monitoring Officer in accordance with legislation
- Related Member and officer training and induction programmes.

It is good practice for individual Members to compile an annual report in respect of their work in the previous year. This has been undertaken by some Members.

### **3.6 Risk Management and Internal Audit**

The Business Risk Management Strategy is produced bi-annually and updated annually to ensure that it is appropriately focused. The Audit Committee approved the latest Business Risk Management Strategy at their meeting on the 22 June 2015. Progress against the approved annual work plan is provided to the Audit Committee throughout the year.

The Corporate Risk Management Group provide strategic direction for the Operational Risk Management Group and review the Corporate Risk Register on a quarterly basis. This Group is responsible for ensuring that all major risks encountered by the Council are identified, assessed and responded to at an appropriate level. This includes major service, directorate and corporate business risks. It is recognised that there are demographic changes being faced by the Council that impact on the delivery of certain services. There is an on-line Business Risk Management system in place, with content and assessments reviewed regularly by service managers. Business risk management is integrated into business/service planning and operations. The Council's Corporate Risk Register is approved annually by Cabinet and reviewed quarterly by Corporate Management Team and the Audit Committee. It can be accessed via the on-line agendas.

The Business Risk Management function is managed by the Audit and Business Risk Manager. To maintain independence an audit review of the Business Risk Management function was undertaken by a neighbouring Council, which resulted in a substantial assurance audit opinion for 2015-16.

The Council maintains an Internal Audit Service whose work plan takes account of their own risk assessment and the key risks of the Council and its Directorates. It operates taking account of professional standards, particularly the Public Sector Internal Audit Standards, reporting to appropriate levels of service management.

The Public Sector Internal Audit Standards requires the Head of Internal Audit (Audit and Business Risk Manager) to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The Head of Internal Audit (Audit and Business Risk Manager) is also responsible for ensuring that the internal audit arrangements conform with the governance requirements of CIPFA's *Statement on the Role of the Head of Internal Audit in Public Service Organisations*.

The Council's Business Risk Management & Internal Audit arrangements are monitored by the Audit Committee.

The Head of Information Technology & Central Support Services acts as the Senior Information Risk Owner (SIRO) and reports directly to the Chief Executive. This responsibility has temporarily passed to the Chief Finance Officer in the absence of the Head of Information Technology & Central Support Services.

An IT Steering/Information Governance Group, made up of senior officers from across the Council, is in place to ensure the ongoing risk assessment and safeguarding of the Council's information. Following meetings of the group, the SIRO reports to Corporate Management Team. The Council has numerous safeguards in place to protect its information, which includes encryption of portable IT devices, storage media and email correspondence. These safeguards are under constant review and improvement, with an annual audit of the Council's information governance arrangements undertaken by the Internal Audit Service and external reviews undertaken by organisations such as the Information Commissioners Office (ICO). Training is provided internally and by external trainers.

### **3.7 Performance Management, Quality and Use of Resources**

The Council prepares an Annual Improvement Plan which summarises progress against targets and sets the main objectives for improving performance and service standards for the forthcoming year. As part of the Council's performance management framework each Directorate is required to produce annual service improvement plans which are aligned to the Single Improvement and Annual Improvement Plans to set specific targets for achieving those objectives at service levels. For 2015-16, all Heads of Services reported quarterly progress on their service improvement plans to the Corporate Management Team.

Performance Appraisals are aligned to overall corporate and service objectives and must be undertaken for all employees either individually or as part of a team.

The Council currently uses a performance management system to manage performance data.

A revised Strategic Asset Management Plan 2015-16 to 2019-20 and associated Action Plan was approved by Cabinet in November 2015. A Member/Officer Strategic Asset Management Working Group has been established to monitor the implementation of the Action Plan in order to better manage the Council's property assets whilst maximising revenue savings and capital receipts.

The Performance Management Framework places significant emphasis on the importance of measuring the quality of services for users. In addition, the Council's approach to Service Improvement Planning also encourages Heads of Service and managers to identify appropriate sources of service user views.

It is anticipated that Welsh Government will introduce a new Local Government Performance Improvement Framework in 2017, which will involve the revocation of National Strategic Indicators and will define what Local Government need to report on to underpin the National Well-being Indicators. It has been decided that the status quo will remain on an interim basis for 2016-17.

### **3.8 External Scrutiny**

The Council has an objective and professional relationship with external auditors and inspectors. Though recent inspections have delivered some challenging messages to the Authority, all the recommendations made have been implemented or are in the process of implementation.

Through reviews by external auditors, inspectors and other external agencies, the Council continually seeks ways for improvement in the way in which its functions are exercised and in pursuing the economical, effective and efficient use of resources. Where external auditors and inspectors make their reports available to the public, they will be published on their respective websites.

There are also procedures to meet responsibilities under the Environmental Information Regulations and the Freedom of Information Act/Data Protection Act.

## **4. Review of Effectiveness**

### **4.1 Annual Review**

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 Directors, Corporate Heads of Service and senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the work of Internal Audit, Business Risk Management and the Corporate Risk Management Group, and findings and comments made by the External Auditors and other review agencies and Inspectorates.

The review is also informed by the work of the Head of Paid Service (Chief Executive), Section 151 Officer (Chief Finance Officer), Monitoring Officer and Head of Democratic Services (Head of Legal & Committee Services) in performing their statutory roles.

In order to facilitate the annual review of effectiveness for 2015-16, the Internal Control Group prepared a Gantt chart "Process and Timescale for Compilation and Approval of the Annual Governance Statement" which outlined required actions by officers and Members. The Audit Committee approved the process and have been involved in each stage of the annual review.

The Council's Internal Control Group, made up of the Chief Finance Officer, Director of Development, Head of Finance & Business Services (Deputy S151 Officer), Head of Legal & Committee Services, Head of Revenues & Assurance and the Audit & Business Risk Manager, co-ordinate the Council's annual review of the effectiveness of the governance framework including the system of internal control.

The Internal Audit Service undertook an audit review of "Compliance with the Local Code of Corporate Governance" which resulted in the audit opinion "substantial assurance" being given. The Local Code of Corporate Governance will be reviewed in 2016 to ensure it reflects compliance with the latest CIPFA Guidance 'Delivering Good Governance in Local Government: Framework (2016 Edition) and the requirements of the Well-being of Future Generations (Wales) Act 2015.

Following review of the Annual Governance Statement by the Audit Committee, it is forwarded to the Corporate Governance Committee for formal approval (Delegated responsibility under the Constitution, Part 3). The approved Annual Governance Statement is signed by the Leader of the Council and Chief Executive.



## 4.2 Members and Officers

The [Cabinet](#) monitors the effectiveness of governance and internal control systems via the consideration of regular financial, internal control, business risk management and performance data reported by senior management via the quarterly integrated report, together with consideration of various strategies, plans and policies. From 2012-13, reporting arrangements were extended to Overview & Scrutiny Committees.

[Overview and Scrutiny Committees](#) within the Authority support the work of the Cabinet and Council as a whole, giving advice on policies, budget and service delivery. Decisions of the Cabinet are also monitored by these Committees and there is the facility to 'call in' a decision made by Cabinet that has not yet been implemented in order to assess whether the decision is appropriate.

The [Audit Committee](#) provides formal and transparent scrutiny of the Council's risk management, internal control, corporate governance, financial management and internal/external audit arrangements via the consideration of regular reports from senior management and the Wales Audit Office.

The [Standards Committee](#) oversees the conduct and standards of behaviour of Members.

Annual Directorate and Corporate Service Assurance certificates are required ensuring wider engagement in the review process. Again whilst not able to provide absolute assurance, the Directorate self assessment approach regarding opinion on governance, internal control and risk management can reinforce responsibilities and identify areas that may need improvement, especially any issues considered high priority for inclusion in the concluding Action Plan. It provides a pathway for a more fully informed picture and has been recognised by external audit as good practice.

This information is reviewed by the Chief Finance Officer and the Audit & Business Risk Manager, along with other relevant information such as budget monitoring reports in compiling this statement.

In order to improve the interaction and challenge of senior management in the annual review of effectiveness, a joint workshop between Corporate Management Team and Corporate Heads of Service was held during the early stages of the process. There was also improved interaction and challenge with Members, facilitated by a meeting between the Audit & Business Risk Manager and the Leader of the Council.

## 4.3 Internal Audit

The effectiveness of the Council's internal controls is examined in detail through the work of the Internal Audit Service. The section's work plan is based around a needs and risk assessment process following consultation with Directors and Heads of Service, and approved by the Section 151 Officer and the Audit Committee.

The Audit & Business Risk Manager reports on individual audit reviews and assignments, specifically in respect of the governance, internal control, risk management and financial management arrangements in place and provides an opinion as to their adequacy and effectiveness, together with recommendations and action plans for improvement.

The Internal Audit Service are unable to give absolute assurance and conclusions reached may have had to place reliance on assurances given by management, however on the basis of the results of reviews completed during the year the Head of Internal Audit's overall opinion remains that the Council has adequate governance, internal control, risk management and financial management arrangements in place, which are operating effectively.

The work of the Internal Audit Service, along with the wider financial aspects of corporate governance and performance management, are examined and validated each year by the Council's external auditors.

## 4.4 External Review Agencies

The Council's external auditors (Wales Audit Office) and other inspection agencies, such as Estyn and CSSiW provide further assurance or opinion by reporting throughout the year on the performance of the Authority and these may include comment on the system of internal control. Improvement and action plans have been developed to respond to any recommendations made. The following External Review Agency reports have been received in 2015-16:

- HMI Probation – Short Quality Screening (SQS) of Youth Offending Work
- Welsh Government Supporting People Programme Grant Funding
- OGC Pembroke Learning Campus Gateway Review
- WAO Supporting the Independence of Older People: Are Councils Doing Enough?
- WAO Review of Corporate Safeguarding Arrangements in Welsh Councils
- OGC Gateway Review (21<sup>st</sup> Century Schools)
- WAO Corporate Assessment
- WAO Financial Resilience

All external inspection reports are recorded on the Internal Audit automated software (MKInsight) providing greater oversight of assurance providers' opinions and recommendations. Reports are presented to the Audit Committee for consideration and who may then refer areas of concern to the relevant Overview & Scrutiny Committee. Recommendations from external reviews are treated in accordance with the Internal Audit Recommendation Monitoring and Escalation Protocol.

External Audit (Wales Audit Office) produce an Annual Improvement Report in addition to their Appointed Auditor's brief Annual Letter.

Wales Audit Office undertook a Corporate Assessment of the Council in April 2015, with a report issued in December 2015. A detailed action plan has been developed and is monitored by the Corporate Management Team on a monthly basis and by Cabinet and the Audit Committee on a quarterly basis.

## 5. Significant Governance Issues and Priorities for Improvement from the 2014-15 Annual Governance Statement

The progress made in addressing the three significant governance issues and four priorities for improvement highlighted in 2014-15 and one priority for improvement brought forward from the 2013-14 Annual Governance Statements is shown in the table below, having been reported to the Council's Audit Committee in February 2016:

No.	Significant Governance Issues	Progress During 2015-16	Further Actions for 2016-17
5.1	<p><b>Financial Challenges</b> The financial challenges for the Council will continue indefinitely as the UK Government continues to try and address the public sector debt and Wales continues to share the impact of ongoing cuts in public expenditure. Welsh Government's commitment to protect health funding, and resultant cuts to local government funding will necessitate some hard choices to be made.</p> <p>Welsh Government have advised the Council to plan for an annual reduction of 4.5% in its financial settlements which has resulted in cost reductions/efficiencies of £12.3m for 2015-16, £13.1m for 2016-17 and £11.3m for 2017-18 being required (including indicative council tax increases of 4.5% per annum).</p> <p>The £12.9m cost reductions/efficiencies for 2014-15 were achieved.</p> <p>The next round of European grants are commencing but it is not yet known whether the Council will be successful in obtaining funding in the next round.</p> <p>The Council is continuing to progress its £150m 21<sup>st</sup> Century Schools programme.</p>	<ul style="list-style-type: none"> <li>• A Medium Term Financial Plan 2016-20 has been developed and approved by Council.</li> <li>• Budget for 2016-17, incorporating £13.8m cost reductions/efficiencies and £2.5m in additional Council Tax, approved by Council.</li> <li>• 50% increase in Council Tax for owners of second homes approved by Council, for implementation in 2017-18.</li> <li>• Work undertaken by PWC to assist the Authority with the identification of potential cost reduction/efficiencies and opportunities for transformation.</li> <li>• Budget consultation with Members, Employees and the Community has been undertaken throughout 2015-16.</li> </ul>	See 6.1.

No.	Significant Governance Issues	Progress During 2015-16	Further Actions for 2016-17
5.2	<p><b>White Paper Reforming Local Government: Power to Local People</b></p> <p>The Welsh Government has consulted on proposals for change to local government in Wales in the consultation White Paper Reforming Local Government: Power to Local People. The period of consultation closed on the 28<sup>th</sup> April 2015 and a summary of findings will be published later this year.</p> <p>The proposed changes aspire to set out the role of Local Government for the next generation by delivering new purpose and greater innovation in the design of Local Authorities across Wales.</p>	<ul style="list-style-type: none"> <li>Continued Public, Employee and Member engagement to redefine the Vision and Guiding Principles of the Authority.</li> <li>Opportunities for Joint Working continue to be identified and explored, e.g. ICT, Social Care Commissioning and Procurement with Carmarthenshire County Council and Procurement with Pembrokeshire College.</li> <li>Review of the Constitution underway. Revised Committee Structure to commence in September 2016.</li> </ul>	See 6.2.
5.3	<p><b>Member Officer Relations</b></p> <p>Behaviours could impact upon decision making, which could result in objectives not being achieved and a decline in performance.</p>	<ul style="list-style-type: none"> <li>Constitution under review, Phase 1 to be submitted to Council for approval in July 2016, Phase 2 to be reviewed in Autumn 2016.</li> <li>New Overview &amp; Scrutiny Committee Structure approved, to be implemented in September 2016.</li> <li>Rolling programme of training.</li> </ul>	See 6.3.
No.	Priorities for Improvement (2013-14)	Progress During 2015-16	Further Actions for 2016-17
5.4	<p><b>Grant Funding Management Arrangements</b></p> <p>Developing a corporate approach to the administration of grant funding that ensures the consideration of all financial risks and the provision of effective exit strategies should the grant funding cease.</p>	<ul style="list-style-type: none"> <li>Limited progress due to resources available and delays in confirmation of the next round of European grant funding.</li> <li>Internal Audit continued to provide both consultancy and assurance work.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration to be given to whether the management of grant funding should be undertaken corporately or remain within Directorates.</li> <li>Ongoing Internal Audit review of grant funding management arrangements.</li> <li>Financial risks and effective exit strategies to be built into all new grants, European and otherwise.</li> </ul>

No.	Priorities for Improvement (2014-15)	Progress During 2015-16	Further Actions for 2016-17
5.5	<p><b>Appointment of Chief Executive and review of Senior Management Structure</b></p> <p>The Chief Executive/Head of Paid Service role has been the responsibility of the Director of Transportation, Housing and Environment since August 2014 with the appointment of a new permanent Chief Executive/Head of Paid Service expected in July 2015.</p>	<ul style="list-style-type: none"> <li>• Chief Executive appointed July 2015..</li> <li>• Senior Management and Directorate Structures regularly reviewed and updated. Current circumstances require some roles to be assigned on an interim basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Chief Executive to review and align the Senior Management structure with the Council's Transformation Programme.</li> </ul>
5.6	<p><b>Partnerships and Significant Projects</b></p> <p>Building on the work undertaken in 2014-15 to strengthen the overall governance arrangements in relation to partnership work and the management of significant projects.</p>	<ul style="list-style-type: none"> <li>• Limited progress has been made.</li> </ul>	<ul style="list-style-type: none"> <li>• Partnerships Procedure and definition of partnerships to be reviewed to ensure that robust controls are defined.</li> <li>• Promotion of the requirements of the Partnerships Procedure.</li> <li>• Continuing to develop Business Risk Registers to support all significant Partnerships and Projects.</li> <li>• Introduction of the Partnerships Overview &amp; Scrutiny Committee in September 2016.</li> </ul>
5.7	<p><b>State Aid</b></p> <p>An Internal Audit review identified a number of opportunities to improve the arrangements in place to comply with State Aid requirements.</p>	<ul style="list-style-type: none"> <li>• Head of Finance &amp; Business Services appointed as the lead officer for State Aid.</li> <li>• State Aid Working Group and work plan established and regular meetings held.</li> <li>• Overview provided to Directors and Heads of Service.</li> <li>• Nominated Officer from each service area identified.</li> </ul>	<ul style="list-style-type: none"> <li>• Training to be provided to nominated officers across all service areas.</li> <li>• Work plan to be monitored by the State Aid Working Group.</li> </ul>

No.	Priorities for Improvement (2014-15)	Progress During 2015-16	Further Actions for 2016-17
5.8	<p><b>Asset Management</b></p> <p>Internal Audit reviews for two consecutive years have only provided a limited assurance opinion on Asset Management. In both years the WAO, as part of their external audit of the fixed assets within the statement of accounts, have required a significant number of amendments to be made to valuations.</p>	<ul style="list-style-type: none"> <li>Internal Audit review for third consecutive year only provided a limited assurance opinion, albeit the direction of travel was positive.</li> <li>Asset Valuations not undertaken or updated on the Asset Register in a timely manner, resulting in the Wales Audit Office undertaking their testing for the 2015-16 Statement of Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of recommendations made by Internal Audit and the Wales Audit Office.</li> <li>Review of capacity within the Property and Asset Management section.</li> <li>Timely asset valuations and update of the asset register.</li> <li>Ongoing monitoring by the Audit Committee.</li> </ul>

## 6. Significant Governance Issues/Priorities for Improvement from the 2015-16 Annual Governance Statement

There are three significant governance issues and four priorities for improvement following this, the 2015-16 review:

No.	Significant Governance Issues	Key Actions for 2016-17
6.1	<p><b>Financial Challenges</b></p> <p>The financial challenges for the Council will continue indefinitely as the UK Government continues to try and address the public sector debt and Wales continues to share the impact of ongoing cuts in public expenditure. Welsh Government's commitment to protect health funding, and resultant cuts to local government funding will necessitate some hard choices to be made.</p> <p>The Medium Term Financial Plan 2016-20 projects a funding gap of £52.5m over the four year period. This is based on an anticipated worst case scenario annual reduction of 4.5% in the financial settlement from Welsh Government. Cost reductions/efficiencies of £42.8m and indicative Council Tax increases (5.0% per annum) of £9.7m will be required to bridge the funding gap.</p> <p>£10.1m cost reduction/efficiencies and £2.2m additional Council Tax income for 2015-16 were achieved albeit some of the planned cost reductions/efficiencies were replaced by others during the year.</p> <p>The Council is continuing to progress its £149.9m 21<sup>st</sup> Century Schools programme.</p>	<ul style="list-style-type: none"> <li>Review and update of assumptions made in the Medium Term Financial Plan 2016-20.</li> <li>Achievement of 2016-17 planned cost reductions/efficiencies of £13.8m and additional Council Tax income of £2.5m.</li> <li>Progression of the Transformation Programme, working in three streams: <ul style="list-style-type: none"> <li>Internal Transformation Team</li> <li>Collaborative working, e.g. Carmarthenshire.</li> <li>Working with a Strategic Partner.</li> </ul> </li> <li>Continued budget consultation and engagement exercises with Members, Employees and the Community.</li> </ul>

No.	Significant Governance Issues	Key Actions for 2016-17
6.2	<p><b>Transformation of Services and Compliance with the Well-being of Future Generations (Wales) Act 2015</b></p> <p>The funding gap identified within the MTFP 2016-20 requires a review of all services and delivery options to be undertaken in order to deliver the significant cost reductions/efficiencies of £42.8m required.</p> <p>Decisions must comply with the 'Sustainable Development Principle' of the Well-being of Future Generations (Wales) Act 2015 and the seven Well-being Goals, which will impact on future service delivery options appraisal as part of the Transformation Programme.</p>	<ul style="list-style-type: none"> <li>• Continued commitment to the Pembrokeshire Public Services Board.</li> <li>• Evaluation of all services to identify opportunities for efficiencies and new ways of working.</li> <li>• Introducing a new Committee structure in Autumn 2016 to provide challenge to all services across the Authority, including a Partnerships Overview &amp; Scrutiny Committee.</li> <li>• Ensuring that the strategic development of the Authority is aligned to the Well-being Goals.</li> </ul>
6.3	<p><b>Member Officer Relations</b></p> <p>Behaviours could impact upon decision making, which could result in objectives not being achieved and a decline in performance.</p>	<ul style="list-style-type: none"> <li>• Member Officer Relations strategic risk to be reported to the Corporate Governance Committee for determination of risk control measures.</li> <li>• Clear demarcation of Member and officer roles to enable effective operational management of service delivery.</li> <li>• Information sharing protocol and regular briefings for Members on critical/key issues.</li> <li>• Introduction of the New Constitution.</li> <li>• Rolling programme of training.</li> <li>• New Overview &amp; Scrutiny structure.</li> </ul>
No.	Priorities for Improvement	Key Actions for 2016-17
6.4	<p><b>Compliance with the Social Services and Well-being (Wales) Act 2014</b></p> <p>The Act, which came into force in April 2016, is the new legal framework that brings together and modernises Social Services law.</p> <p>The Act imposes duties on Local Authorities, Health Boards and Welsh Ministers that require them to work to promote the well-being of those who need care and support or carers who need support.</p>	<ul style="list-style-type: none"> <li>• Include key areas for action in Divisional Service Improvement Plans.</li> <li>• Produce regular monitoring reports for Programme Board to ensure progress.</li> <li>• Set up individual project groups/plans to address themes e.g. IAA, customer feedback on outcomes.</li> <li>• Ensure HSC&amp;WB Commissioning Partnership's Terms of Reference addresses multi agency requirements.</li> <li>• Implement and monitor schedule of required training and contribute as required to Regional Collaborative.</li> </ul>

No.	Priorities for Improvement	Key Actions for 2016-17
6.5	<p><b>Key Stage 4 Performance</b></p> <p>Only one of the eight secondary schools in Pembrokeshire achieved outcomes in line with expectations (L2+ - 5 A*-C including Maths and English/Welsh) in 2015. A specific Key Stage 4 action plan was documented and reported to the Children &amp; Families Overview &amp; Scrutiny Committee in November 2015.</p>	<ul style="list-style-type: none"> <li>• Monitoring implementation of the Key Stage 4 action plan to improve performance standards.</li> <li>• On-going monitoring and challenge of School performance based upon the Education Through Regional Working (ERW) expectations outlined in the agreed Regional Ladders of Intervention document.</li> <li>• Further support from ERW to ensure continued improvement in Key Stage 4 performance.</li> </ul>
6.6	<p><b>Corporate Contract Monitoring</b></p> <p>An Internal Audit review of Contract Monitoring arrangements was undertaken in 2015-16 and a limited assurance opinion was given. Recommendations for improvement were made to ensure that there are robust and consistent contract monitoring arrangements in place across the Authority.</p>	<ul style="list-style-type: none"> <li>• Implementation of the Internal Audit recommendations.</li> <li>• Pilot 'Contract Monitoring Officer' role.</li> </ul>
6.7	<p><b>Implementation of the WAO Corporate Assessment Recommendations</b></p> <p>Wales Audit Office undertook a Corporate Assessment in April 2015, with the final report issued in December 2015. A detailed action plan has been developed in response to the recommendations.</p>	<ul style="list-style-type: none"> <li>• Action Plan implementation monitored monthly by CMT and quarterly by Cabinet.</li> </ul>



**Leader/Chief Executive (Head of Paid Service)**

We have been advised on the implications of the results of the review of the effectiveness of the governance framework including the system of internal control by the Internal Control Group and a plan to address weaknesses and ensure continuous improvement of the system in place.

To the best of our knowledge, the framework identified above has been effectively operated during the year.

The process by which the effectiveness of the governance framework including the system of internal control is reviewed will continue to be developed in the future taking account of the Code, experience, best practice, appropriate guidance and any changes in legislation impacting on the Annual Governance Statement.

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



COUNCILLOR KEN ROWLANDS  
CHAIRMAN CORPORATE GOVERNANCE COMMITTEE

**COUNCILLOR J. ADAMS**

**Leader**

Date: 27/07/2016



**I. WESTLEY**

**Chief Executive**

Date: 27/07/2016