

BACKGROUND / SCOPE OF RESPONSIBILITY

Argyll and Bute Council's (the Council) governance framework includes the systems, processes and culture by which the Council is controlled, engages with communities and monitors the achievement of strategic objectives. The Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way which its functions are exercised, having regard to the economic, efficient and effective use of public money.

The system of internal control is a key part of the framework, and is designed to manage risk to an acceptable level.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance (the Code), which is consistent with the principles and requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007). This Statement explains how the Council has complied with the Code and meets the requirements of current good practice.

A copy of the Code may be obtained from the Head of Governance and Law, (Legal and Regulatory Services after 1 July 2019) Argyll and Bute Council, Kilmory, Lochgilphead, PA31 8RT and is also available on the Council's website.

THE GOVERNANCE FRAMEWORK

The Code details how the Council will demonstrate compliance with the fundamental principles of corporate governance for public sector bodies. The six key principles of our governance arrangements in 2018/19 are described in the Code, along with our supporting principles and key aspects of our arrangements to ensure compliance. Key features of our arrangements are summarised below.

1. Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area

Our Corporate Plan sets out our, and our community planning partner's, vision for Argyll and Bute's economic success to be built on a growing population. It also defines our mission "*To make Argyll and Bute a place people choose to live, learn, work and do business*" and establishes our outcomes, priorities and approach to delivering on our shared ambition with our community partners.

We have a Performance Improvement Framework (PIF) that ensures performance is integral to the work of the Council. The PIF is focused not just on measuring what we do but on measuring the difference we make in terms of our outcomes.

Councillors and senior managers review and scrutinise the Council's performance at all levels to ensure our services are having the desired impact on our communities and customers. At a strategic level, performance is scrutinised through our strategic committees and, more locally, at our area committees. The Audit and Scrutiny Committee, which meets four times a year, has a key role in reviewing and scrutinising how we are meeting our strategic objectives. They also promote good internal control, financial and risk management, governance and performance management, in order to provide reasonable assurance over the effective and efficient operation of the Council, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council's constitution defines the roles and responsibilities of the administration, committees, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The constitution is updated on an annual basis with the last update carried out in June 2019.

The constitution includes collective and individual roles and responsibilities of the Leader, Provost, Policy Lead Councillors, other councillors and officers. It also includes a protocol for the role of the Monitoring Officer (the Executive Director for Customer Services).

Best Value (BV) is assessed by the Council's external auditors over the five year audit appointment, as part of the annual audit work and, additionally, a Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once during this five year period. The Council's external audit team are carrying out their BV fieldwork during the second half of 2019 with a BVAR scheduled for publication in early 2020/2021. In preparation the Council has established a BV Working Group, chaired by the Head of Improvement & Human Resources. The group's core responsibility is to self-assess the Council in relation to the eight core BV themes and, in doing so, prepare a body of evidence to provide to the external auditors to support their fieldwork. The group report progress regularly to the Strategic Management Team (SMT).

The revised Councillors' Code of Conduct and Associated Standards Commission guidance as well as the Commission's advice note on bullying and harassment was the subject of a member's seminar in August 2018.

3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

We have four values, which underpin all that we do and provide a sound basis to achieve transformation to ensure we meet the challenges of the future and deliver quality services. These values are that we have a workforce which is:

- Caring
- Committed
- Collaborative
- Creative

We have developed and communicated an Ethical Framework within the Council's Constitution, which defines standards of behaviour for members and staff. Protocols for Member/Officer relations are also detailed within the Constitution.

The Councillors' Code of Conduct is set out at a national level, applying to all members in Scottish local authorities. The revised Councillors' Code of Conduct and Associated Standards Commission guidance as well as the Commission's advice note on bullying and harassment was the subject of a member's seminar in August 2018. A register of members' interests is available on the Council's website.

The code of conduct and protocols are supported by training and development programmes for elected members by offering Performance Review and Development (PRD) plans which inform the development of training and development programmes and seminars.

4. Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk; ensuring effective counter fraud and anti-corruption arrangements are developed and maintained

Our standing orders, financial instructions, scheme of delegation and supporting procedure notes/manuals clearly define how decisions are taken and the processes and controls in place to manage risks. These are reviewed and updated on an annual basis. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Council's Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful and fair.

Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Financial Officer and we ensure that our independent Audit and Scrutiny Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. The Audit and Scrutiny Committee receive an annual risk management overview report and have developed a Scrutiny Framework and Manual to support the performance of scrutiny reviews which were rolled out in 2018/19.

The anti-fraud strategy ensures there are effective arrangements for whistle-blowing and for receiving and investigating complaints from the public and partners.

5. Developing the capacity and capability of members and officers to be effective

Elected Member Development

The Council has signed up to the Improvement Service's Continuing Professional Development Framework for Elected Members. All Elected Members are provided with opportunities to progress personal development plans so that individual training needs and aspirations are identified and support provided as appropriate. This is complemented by a comprehensive seminar and workshop programme which addresses a wide range of topics and strategic issues. The 2018/19 programme included sessions on transformation, Rural Growth Deal, Treasury Management, Code of Conduct, the Health and Social Care Partnership (HSCP), waste management, budgetary issues as well as a range of other topics. All seminar presentations are hosted on the Member's intranet ensuring the information is widely accessible.

Elected Members also engage in committee development sessions which are focused on key areas within the strategic remit of the particular committee and includes engagement with external organisations such as OFCOM and Transport Scotland. The Audit and Scrutiny Committee attended a two day scrutiny development workshop in August and the Harbour Board attended a workshop in January on the Port Marine Safety Code Duty Holder Responsibilities.

Elected Members appointed by the Council to sit on external bodies also participate in a wide range of development activities organised directly by these organisations e.g. before each HSCP meeting there is a development session.

Officer Development

The Council supports officer development through a structured approach, driven by the values set out in the Corporate Plan and a behavioural competency framework. This is underpinned by a systematic approach to identifying core and mandatory training requirements in all council job descriptions and the annual Performance Review and Development (PRD) process.

The Council has Argyll and Bute Manager and Leadership Programmes, which ensure that all employees who have management responsibilities are knowledgeable and effective in delivering services within the priority management policies and procedures of the Council, including finance, performance and people management. The Leadership Programme ensures that senior and

aspiring leaders in the organisation have support to develop their leadership behaviours and to improve their overall impact and performance across the organisation.

The Council is committed to delivering an annual PRD programme, which in turn informs the annual corporate training programme.

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

We have established clear channels of communication with the community and other stakeholders through our Communication Strategy. Key mechanisms include:

Annual Budget Consultation

The Council undertakes a wide ranging budget consultation exercise each year, using a range of channels including written, face to face, online, Community Councils and through partner organisations and community groups in the Community Planning Partnership. The results of the consultation inform the members' budget decision making process and are reported to the Council as part of the budget reports pack.

Consultation Diary

The Council has developed a consultation section on its website which hosts all consultations run by the Council, both current and historic. This includes a section which publicises the results and/or outcome of the consultation and the resultant decisions that have been taken, showing how they were informed by the consultation process.

Public Performance Reporting

The Council's website makes all performance information available to the public within the performance section. This includes information on performance scorecards, budgets and other service related information. This ensures the Council is openly accountable to the public for its performance against agreed policies and standards.

Community Engagement

The Council supports good community engagement with the resourcing of community development officers in the Community Planning and Community Development Service and the work of the community learning officers (Youth Work and Adult Learning). Both teams have resources and expertise to support children and young people, hard to reach groups and remote communities to have a voice in local service planning, delivery and evaluation, as well as best community engagement practice for any other requirement.

Local community development officers also support community groups, organisations and individuals, particularly those who do not traditionally engage in community issues, to participate in local area community planning groups.

The Council's Area Governance section supports community engagement by providing the staff resource to support three Area Community Planning Groups which act as a forum to enable local groups and organisations to participate in community planning and partnership working at a local area level throughout Argyll & Bute. The fourth (Helensburgh and Lomond) is supported by Scottish Fire and Rescue on a partnership basis as agreed by the management committee.

It also supports community engagement by resourcing community council liaison activities, including a training programme, which helps to build the capacity of community councils. The Council undertook a review of the Scheme of Establishment for Community Councils which involved a wide ranging consultation with communities in advance of the April 2018 community council elections.

The Council produced a Community-Led Action Planning Toolkit in partnership with Scottish Community Development Centre. Communities are being supported to consider use of the online toolkit in developing action plans that the community can lead on to address issues and needs in their communities. There are a number of existing community-led action plans and these are recognised as important community contributions to area community planning.

A strong Community Planning Partnership (CPP) is in place with partners leading each of the outcomes. This enhances the shared sense of accountability and ownership of working towards realising the CPP priorities.

Council/Committee Meetings

Meetings are always held in public, unless one of the statutory exemptions in the Local Government (Scotland) Act 1973, schedule 7A applies to the content of the report. When this is the case papers are adjusted to ensure that the maximum amount of content is in the public domain.

GOVERNANCE ROLES AND RESPONSIBILITIES

The Council has appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The legislative framework of local government defines a number of posts which are primary to the Council's governance arrangements. These include the Chief Executive, fulfilling the role of Head of Paid Service. As Monitoring Officer, the Executive Director of Customer Services has responsibility for:

- overseeing the implementation of the Code and monitoring its operation
- reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness.

Account has been taken of the results of reviews of internal control that have been carried out within each council service.

Specific responsibilities are assigned to the Head of Strategic Finance, as Chief Financial Officer, to ensure that public funds are properly accounted for. In recognition of the significant role that the Chief Financial Officer has in relation to financial performance and the financial control environment, CIPFA has set out key principles that define the core activities and behaviours that belong to the role. These include, being a key member of the Leadership Team, being actively involved in and influencing decision making, and leading the delivery of good financial management across the whole organisation.

The Council have also appointed a Data Protection Officer in line with the requirements of the General Data Protection Regulations (EU) 2016/679 and the Data Protection Act 2018 which came into force on 25 May 2018.

FINANCIAL SUSTAINABILITY

It is anticipated the Scottish public sector will continue to face a very challenging short and medium term financial outlook with significant uncertainty over the scale of likely reductions in funding. The Council accepts the current financial climate we are in. Councils exist within the constraints of one year financial settlements which do not provide any degree of medium term certainty. Furthermore the ring fencing of monies places limitations on what the Council can do and additional policy and legislative implications, not always fully funded, creates additional financial pressures for councils. These pressures are exacerbated by the uncertainty, and

largely unquantifiable potential implications, of the UK's possible withdrawal from the European Union.

The Scottish Government's announcement, as part of the 2019/20 budget process, to provide three year funding allocations for Local Government from 2020/21 is welcomed and will greatly assist with future financial planning.

The Council is well informed on financial estimates for future years. A medium term financial outlook covering three years is presented at each Policy and Resources Committee meeting. Preparing any forward looking financial outlook is challenging due to the levels of uncertainty however the assumptions are reviewed regularly and updated with the outlook prepared to reflect a best case, worst case and mid-range scenario.

In 2017/18 the Council developed a medium to longer term financial strategy (covering 10 years) designed to ensure the Council addresses the challenges it faces effectively. This strategy is due to be reviewed and updated during 2019/20.

The Council has a strong track record in financial planning and management as recognised by previous year's annual external audit reports. This despite eleven years of budget reductions that have required the Council to make around £59m of cumulative savings.

Council officers have annually produced ideas for management/operational efficiencies which have helped reduce the impact of savings on service users and communities. Work is continuing on a number of areas including automating processes, depot rationalisation, reducing debt levels and repayments and many more to generate further efficiencies that may help reduce the budget gap. A Transformation Board is in place to oversee cost saving and transformational activities and they are continuing to pursue a number of medium to longer term options. One recent success overseen by the Board is a change in the management of the Council's land and building assets to deliver a proactive property development service. This enables the Council to take a more effective, commercially astute, and strategic approach to estate management and surplus asset disposal which will help optimise value for money.

In addition to the medium to longer term opportunities being explored, work is already underway to identify options to balance the budget in 2020/21.

INTERNAL FINANCIAL CONTROL

The Council has a system of internal financial control designed to manage risk to a reasonable level. It 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 officers within the Council and the named bodies mentioned below.

In particular the system includes:

- comprehensive budgeting systems

- regular reviews by the Council and the named bodies (mentioned below) of periodic and annual financial reports which indicate financial performance against forecast
- setting targets to measure financial and other performance
- the preparation of regular financial reports which indicate actual expenditure against forecast
- clearly defined capital expenditure guidelines
- project management disciplines
- guidance relating to financial processes, procedures and regulations
- an effective Internal Audit section.

Internal controls cannot eliminate risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

This annual review also covers the other bodies whose activities are incorporated into our Group Accounts and reliance is placed on the formal audit opinion contained in the financial statements of each individual body.

- Dunbartonshire and Argyll and Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Live Argyll
- Argyll and Bute Integration Joint Board

RISK MANAGEMENT

The Council's risk management processes are well developed. In particular the:

- Strategic Risk Register is updated twice a year and approved by the SMT
- Chief Executive presents the Strategic Risk Register to the Audit and Scrutiny Committee on an annual basis
- Operational Risk Registers are updated quarterly by departmental management teams.

Internal Audit performed an audit of risk management in 2018/19 to assess whether the revised processes are operating effectively. The audit provided substantial assurance over the Council's risk management arrangements.

INTERNAL AUDIT

The Council and its Group bodies have internal audit functions, which operate to Public Sector Internal Audit Standards. The work of internal audit is informed by an analysis of the risk to which the Council and its Group bodies are exposed, with annual internal audit plans prepared based on that analysis. The Council's Audit and Scrutiny Committee endorses the preparation methodology and annual internal audit plan and monitors the performance of Internal Audit in completing the plan.

The Chief Internal Auditor provides the Audit and Scrutiny Committee with an annual report on internal audit activity in the Council and this confirms that reasonable assurance can be taken that the systems of governance and internal control are operating effectively.

Internal audit provides members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. External audit has,

and continues to, place reliance on the work of internal audit. The Chair of the Audit and Scrutiny Committee is an independent lay member.

During 2018/19, 4 of the 27 audit reports presented to the Audit and Scrutiny Committee had an overall audit opinion of 'limited' assurance. These reports focused on VAT, Off-Payroll Working, School Fund Governance and Waste Management. For these, and all other audit reports, an action plan has been agreed and progress against their delivery is routinely monitored by Internal Audit. Management have accepted 100% of audit recommendations and a robust follow-up system is in place with progress reports presented to the SMT on a monthly basis.

During 2018/19 the following developments were made within Internal Audit:

- developed and implemented a new approach to scrutiny including a joint officer/elected member training session
- reviewed and rolled out a new approach to continuous monitoring
- created a new audit universe to inform the development of the annual audit plan
- further enhanced team development days to include presentations from other council officers to build the team's understanding of the key risks and issues facing services
- established a working group with four other councils to discuss audit approaches and share good practice and resources
- implemented the improvements identified in the team's external quality assessment.

HEALTH AND SOCIAL CARE INTEGRATION

The Argyll and Bute Integration Joint Board (IJB) has been established as a separate legal entity from both the Council and NHS Highland (the Health Board), with a separate board of governance. The IJB comprises eight voting members with four elected members nominated by the Council and four board members of the Board. In addition there are a number of non-voting appointees representing other sectors and stakeholder groups, such as the third sector, independent sector, patients and service users, carers and staff. The arrangements for the operation, remit and governance of the IJB are set out in the Integration Scheme. The Integration Scheme also outlines the scope and function of services that are delegated, and the clinical and care governance, financial and operational management arrangements.

From 1 April 2016 the IJB, via a process of delegation from the Council and the Health Board, has responsibility, supported by the Chief Officer, for the planning, resourcing and operational delivery of all community and acute health and social care services within Argyll and Bute. The overarching strategic vision, mission and values of the IJB are set out in the Strategic Plan and Strategic Objectives which are aligned to deliver on the National Outcomes for adults, older people and children.

The Council places reliance on the IJB's framework of internal controls and similarly the IJB places reliance on the procedures, policies and operational systems of the Council and the Health Board. The IJB operates within an established procedural framework. The roles and responsibilities of board members and officers are defined within Standing Orders, the Integration Scheme, Financial Regulations and Standing Financial Instructions.

The IJB has proportionate internal audit arrangements in place to provide independent assurance on risk management, corporate governance and the system of internal control. A risk based

internal audit plan was carried out in 2018/19 and the IJB's internal auditor will issue a formal annual report providing their independent opinion on the effectiveness of the IJB's risk management, internal control and governance processes.

Progress is being made in the operation of the IJB to ensure appropriate governance and information sharing arrangements are in place.

In 2018/19, the third year of the partnership, the IJB were not able to set a balanced budget and had unidentified savings of £1.6m in addition to agreed savings of £10.954m. During the year both the Chief Officer and Chief Financial Officer left the organisation. This resulted in reduced focus on the pursuit of additional savings to balance the budget and on delivering the approved savings. A new Chief Officer was appointed in October 2018. The Chief Financial Officer post was covered by an interim between July 2018 and November 2018 and by the Council's Head of Strategic Finance (in addition to her Council post) between December 2018 and June 2019. A new two year appointment was made in June 2019. Enhanced budgetary control arrangements are now in place and comprehensive financial reports are now being presented to the IJB on a regular basis. Although unable to break even at the end of 2018/19, there is now greater control and transparency over the partnership's financial position.

The operating environment going forward remains very challenging, however, the IJB approved a balanced budget for 2019/20 which should provide reassurance to the public, staff and stakeholders that the partnership is determined to work within budget. The revised Strategic Plan covering the period 2019/20 to 2021/22 was endorsed and approved by the IJB on 27 March 2019.

UPDATE ON AREAS FOR DEVELOPMENT IN 2017/18 ANNUAL GOVERNANCE STATEMENT

The 2017/18 Annual Governance Statement identified a number of areas for further development. A summary update for each area is provided in the table below.

Area	2018/19 Update
New scrutiny approach	The Council's new approach to scrutiny has been rolled out. A Scrutiny Framework and Manual was approved by the Audit and Scrutiny Committee as was the 2018/19 Scrutiny Plan. The first review in the plan (Money Skills Argyll) was reported to the June 2019 Audit and Scrutiny Committee and the second (Roads Maintenance) is scheduled for the September 2019 Committee. The 2019/20 Scrutiny Plan was approved at the June 2019 meeting.
GDPR	GDPR compliance is now mainstreamed into service delivery with staff very familiar with the necessary arrangements.
Electronic payslips and greater automation of payroll processing	Electronic payslips are in place for all staff and are being rolled out to elected members. Further improvements in payroll processing automation have been implemented to reduce the risk of errors and improve processing time.
Roads and Amenity Services control hub	Roads and Amenity Services have combined operations teams into one providing single area cross service teams based across Argyll and Bute. An area based management structure has been established and a control hub is being established which will hold information on programmes, asset condition and provide a direct link for communications about operational activity across the various services the hub will support.
Capital monitoring	Work to develop a revised capital monitoring process is ongoing. This is scheduled to be implemented in October 2019 and will be reviewed by Internal Audit in early 2020.
Equality impact assessments to include a socio-economic impact assessment	A new process for Equality and Socio Economic Impact Assessments which considers both services users and employees has been developed and adopted.
Review of Integration Scheme	In February 2018 the Council agreed to pursue a formal review of Argyll and Bute's full Health and Social Care Integration Scheme to ensure it continues to meet Scottish Government policy expectations, and to consider amending the provisions relating to writing back budget underspends/overspends to parent organisations. In addition changes are required to reflect GDPR. Initial proposals were drawn up however, in February 2019, the NHS Highland Director advised that the Health Board are unlikely to agree to the changes proposed relating to the change in risk transfer. There is also an emerging possibility of the Health Board coming forward with proposals which would seek to look at, and potentially change, the scope/context of NHS services included within the Scheme. It has been agreed that all of the matters which may require to be dealt with in terms of a review of the Scheme, will be dealt with as a full review to commence as soon as clarity of all of the topics to be included is achieved and completed (to include approval by the Scottish Government) by 26 June 2020.
Three year strategic plan	The revised Strategic Plan covering the period 2019/20 to 2021/22 was endorsed and approved by the IJB on 27 March 2019. It takes accounts of statutory requirements and the outcomes of the public,

	stakeholder and staff engagement and formal consultation. The Strategic Plan will be presented to both the Council and the Health Board.
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ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2019/20, particularly in the context of continuous improvement within the Council:

- implement a revised capital monitoring process
- streamline treasury management processes to be more efficient whilst ensuring new arrangements have improved resilience, are robust and are fit for purpose
- implement Point-to-Point Encryption for face to face debit/credit card payments
- fully digitalise all document and evidence exchanges for Local Development Plan 2 'Examination in Public' process
- develop an automated interface between the Property Management System (Concerto) and the Financial System (Oracle) to process contractor payments
- develop a new self-evaluation tool within Early Years to align with 'How Good is our ELC' to improve self-evaluation processes
- implement the transfer of Human Resources and Organisational Development from HSCP management to Argyll & Bute management and review governance arrangements
- develop and rollout score cards for monitoring of performance and targets within Roads & Amenity Services.

ASSURANCE

The annual review of the effectiveness of the system of governance and internal financial control is informed by:

- the work of officers within the Council
- the work of Internal Audit as described above
- the work of External Audit
- the Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts
- statements of assurance provided by the Council's Chief Executive, Executive Directors and Heads of Service
- external review and inspection reports; and
- recommendations from the Audit and Scrutiny Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2018/19 and that there are no significant weaknesses. This assurance is framed within the context of the work undertaken during the year and the evidence available at the time of preparing this statement.