

ANNUAL GOVERNANCE STATEMENT 2019/20

This statement from the Leader and the Chief Executive provides assurance to all stakeholders that within Merton Council processes and systems have been established, which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to all citizens of the borough.

1. Scope of responsibility

- 1.1. Merton 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.
- 1.2. This statement explains how Merton Council has complied with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* (2016) and the requirements of regulation 6(1b) of the Accounts and Audit Regulations 2015 which requires all relevant bodies to prepare an annual governance statement.

2 The governance framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and the activities through which it accounts to, engages with and leads its communities. 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 services and value for money.
 -) The full council sets the policy and budgetary framework and is responsible for the appointment of the Mayor; members of other bodies such as Scrutiny, other Committees and local committees. It also adopts the Code of Conduct for Councillors, agrees any changes to the Councils constitution and terms of reference for committees, panels and other member bodies. These meetings are open to the public, except where personal or confidential matters are being discussed.
 -) The Overview and Scrutiny Commission and Panels are responsible for holding the executive to account, influencing the decision-making process, and shaping the development of new policy. Scrutiny oversees the development of the council's business plan and budget and takes an active role on financial and performance monitoring of council services. Three scrutiny panels cover all portfolios, and all areas of council activity. The Commission comprises fourteen members, four of whom are statutory co-opted members. The chair of the Commission is the leader of the Merton Park Ward Independent Resident Group.
 -) The External Scrutiny Protocol sets out scrutiny powers, duties and responsibilities of the council and its partners. The protocol seeks to ensure all partners, statutory and non-statutory, adhere to the same principles for effective

scrutiny, provide information, consider recommendations and respond to the relevant overview and scrutiny panel within an agreed time frame. The protocol forms part of the council's constitution.

-) The key principles of scrutiny in Merton, set out in the scrutiny handbook, are that it should be member-led, consensual, evidence-based and relatively informal. The handbook also contains advice for councillors and officers on their respective roles, guidance and practical steps on how to achieve successful scrutiny. It is based on experience of scrutiny in Merton, best practice research and examples from other local authorities.
-) The Standards and General Purposes Committee has overall responsibility for promoting corporate governance and ensuring controls are adequate and working effectively. The Committee is also concerned with the promotion and maintenance of high standards of conduct within the council; the enforcement of the Member Code of Conduct; and advising the council on ethical governance matters. The Committee monitors the registers maintained in relation to gifts and hospitality received by councillors and offered to and accepted by staff. The Committee comprises twelve members, and the Council's two Independent Persons regularly attend as observers.
-) The Standards and General Purposes Committee fulfils the role of an Audit Committee in accordance with CIPFA recommended best practice, and this committee has overall responsibility for ensuring controls are adequate and working effectively
-) The Standards and General Purposes Committee is responsible for a range of non-executive functions, including electoral matters and personnel issues. It also has responsibility for considering and making recommendations to Full Council on any changes to the council's Constitution. Its functions include ensuring compliance with relevant laws and regulations, internal policies and procedures, and overseeing council accounts and audit activity.
-) The council's constitution sets out the roles and responsibilities of members and senior officers. The role of the corporate management team, including the statutory chief officers, such as the Head of Paid Service, Section 151 officer as well as the Monitoring officer is to support members in the policy and decision-making process by providing assessments and advice to ensure that decision making is rigorous.
-) The Council has a designated Monitoring officer, who, after consulting with the Head of Paid Service (Chief Executive) and Director of Corporate Services, reports to the Full Council, or the Leader in relation to an executive function, if they consider that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission would give rise to unlawful action. The Monitoring Officer also oversees members complaints and conduct, and matters referred by the Standards and General Purposes Committee and delivers reports and recommendations in respect of those to this Committee.
-) The financial management of the Council is conducted in accordance with the Financial Regulations set out in the Constitution. The Council has designated

the Director of Corporate Services, as the Chief Financial Officer in accordance with Section 151 of the Local Government Act 1972. The Council has in place a four-year medium-term financial strategy that was agreed at Council in October 2019 and is updated annually supporting the Council's strategic objectives. The financial strategy ensures the economical, effective and efficient use of resources including a financial management process for reporting the Council's financial standing.

-) Internal audit is responsible for monitoring the quality and effectiveness of internal controls. Using the Council's risk registers and an audit needs assessment, a plan of internal audit work is developed. The outcome of the internal audit risk-based work is reported to Directors and regularly to the Standards and General Purposes Committee. Implementation of recommendations is monitored, and progress reported. Regular Fraud update reports are presented to the Standards and General Purposes committee by the SWLFP.
-) The Council has a performance planning process supplemented by detailed business planning to establish, monitor and communicate the Council's objectives. This includes a performance management system that sets key targets and reports on performance monitoring. The performance management framework is utilised to measure the quality of services for users, to ensure that they are delivered in accordance with the Council's objectives and that these services represent the best use of resources and value for money.
-) The Council has a risk management process to identify, assess and manage those significant risks to the Council's objectives including the risks of its key strategic partnerships. The risk management process includes a risk management strategy, corporate and directorate risk registers. Key corporate risks are regularly reviewed by the Corporate Risk Management Group, Corporate Management Team and an annual report is presented to the Standards and General Purposes Committee.
-) The Council has adopted codes of conduct for its staff and its Members, including co-opted members. These are provided to all staff as they are inducted into the organisation. Members and co-opted members sign an undertaking to abide by their Code of Conduct at the point of their election or appointment. These Codes are always available for reference and reminders and training are provided as necessary.
-) To ensure that concerns or complaints from the public can be raised, the Council has adopted a formal complaints policy which sets out how complaints can be made, what should be expected and how to appeal. Arrangements are in place for Freedom of Information requests, Subject Access requests and publishing of data under the Transparency Agenda.
-) A whistleblowing policy has been adopted to enable staff, partners and contractors to raise concerns of crime or maladministration confidentially. This has been designed to enable referrals to be made without fear of being identified. These arrangements are part of ensuring effective safeguarding, counter-fraud and anti-corruption arrangements are developed and maintained

in the Council. The operation of this policy is overseen by the heads of audit, fraud, human resources and the Monitoring Officer on a monthly basis.

-) Members' induction training is undertaken after each local government election. In addition, an on-going programme of training and awareness is available for Members with formal and informal events each year, including all major changes in legislation and governance issues. Details of training provided are also reported to the Standards and General Purposes Committee.
-) A corporate induction programme is delivered to all new staff joining the Council, supplemented by department specific elements. In addition, further developmental needs are identified through the Council's Appraisal Scheme.

3 Partnerships

- 3.1 The Merton Community Plan 2020 -2025 sets out the achievements of the Partnership over recent years and priorities for the next five years.
- 3.2 The Merton Partnership is responsible for the delivery of the Merton Community Plan (the Sustainable Community Strategy). The Partnership is chaired by the Leader of the Council and hosts an annual themed conference. It has an Executive Board, also chaired by the Leader of the Council that meets quarterly and whose role is to set the strategic direction of the Partnership and manage the delivery of the priorities and targets set out in the Community Plan.
- 3.3 The Merton Partnership Governance Handbook and the Performance Management Framework set out the respective governance and performance management arrangements for the Merton Partnership, including the thematic partnerships sitting under the Partnership and Executive Board (namely the Health and Wellbeing Board, the Children's Trust, the Sustainable Communities and Transport Board, and the Safer and Stronger Communities (which also serves as the Community Safety Partnership).
- 3.4 The Merton Partnership and its thematic Boards and working groups provide a mechanism for the Council to engage with key stakeholders. Most of the Partnership Boards meet quarterly and have clear governance arrangements. The MVSC are being commissioned to provide training to community groups.
- 3.5 The principles guiding the relationship and conduct between the council and voluntary, community and faith sector is set out in the Merton Compact (last refreshed in 2011). The Merton Compact is a partnership agreement between local public bodies and the voluntary and community sector to improve the relationships. The Merton Compact subscribes to the principles of the National Compact, setting out principles and values of the partnership and aims to achieve a Compact way of working

- 3.6 The Merton Compact is monitored by the Compact Board, comprising of representatives from public bodies including Merton Council (political and officer), Merton CCG, the police, the Fire Brigade and South Thames College and local representatives from the voluntary, community and faith sector. A dispute resolution procedure has been developed to help organisations through the difficulties associated with disputes and disagreements.
- 3.7 The council maintains a Partnerships Register which captures details of partnership bodies the council is involved in that are outside the standing bodies of the council, but which inform policy development or implementation. The Partnerships Register is reviewed annually to ensure it is up to date and is published on the council's intranet and website.
- 3.8 The Merton Partnership developed a new Voluntary Sector and Volunteering Strategy in 2017 to inform and guide its collective approach to sustaining a thriving voluntary sector. This new Strategy will guide the requirements for the Council's Strategic Partner programme that commissions advice and information services, as well as support for the voluntary sector.
- 3.9 The Council publishes an annual report setting out expenditure with the Voluntary and Community Sector, including notional funding and business rate discounts

4. Council owned companies

- 4.1 A review was carried out by the Committee on Standards in Public Life on Local Government Ethical Standards in January 2019 which recommended areas of best practice.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principles of openness and publish their board agendas and minutes and annual reports in an accessible place.

- 4.2 Merton council has established two companies.

CHAS 2013 Ltd (CHAS). The company was incorporated on the 28th March 2013, to provide both desktop and onsite supplier/contract risk management assessment and services. There are 2 council officers listed as directors, the Director of Environment and Regeneration, the Assistant Director of Adult Social Services and a managing director. The accounts are audited by EY and filed and published with Companies House. A note is also included in the council's main accounts.

Merantun Development Limited. The company was incorporated on the 9th August 2017, to undertake new housing build for 77 residential units. There are 2 council officers listed as directors, the Assistant Director of Resources and the Assistant Director of Sustainable Communities.

The shareholders board (Merantun Development Limited subcommittee) has 3

Councillors; the Leader of the council, Cabinet Member for Regeneration, Housing and Transport and the Deputy Leader and Cabinet Member for Finance. The sub committee meets 3 or 4 times a year and minutes and agendas are published on the council's website. The accounts are audited by Ernst & Young and are filed and published with Companies House.

5 Review of effectiveness

5.1 The London Borough of Merton 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 the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, standards and general purposes committee, the Head of Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates and others as appropriate.

5.2 This review process includes:

-)] The Monitoring Officer reviews the constitution as changes are required, to ensure its aims and principles are given full effect.
- o Under the Council's constitution an annual report is presented to Council, outlining the work of the Overview and Scrutiny function over the course of the municipal year. This details the work carried out and outcomes achieved and residents' involvement.]
- o Each year a survey of all members is undertaken to seek their views on the effectiveness of the scrutiny function and suggestions for improvement. The results are reported to the Overview and Scrutiny Committee together with an action plan containing measures for innovation and improvements over the coming year|
- o Each year (after Annual Council) Members are asked to declare their interests and at the start of all committee meetings. Senior Officers are required to make annual declarations of interests. Guidance to senior officers is currently being updated. (see Table 1).
- o The Council's financial management arrangements conform to the requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (CIPFA 2016).
- o The Council maintains an effective Internal Audit service that has operated, in accordance with the Public Sector Internal Audit Standards. The Council's assurance arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit* (2019). An internal Public Sector Internal Audit Standards review for 2019/20 of the Internal Audit service concluded that the service is satisfactory and fit for purpose. A five-year external review was also undertaken in May 2018 and provided a compliance assurance.

- A revised Anti-Fraud and Corruption strategy was approved by the Standards and General Purposes Committee in 2019/20.
- An Internal Audit review on the effectiveness of the council's risk management arrangements was undertaken in 2019/20 and provided a substantial assurance.
- Quarterly Information Security and Governance board meetings are held to review policy, procedures and breaches, with representatives from each department and key officers.
- Considerations of the council's corporate risks and action in place (key risks included in table 1).
- Regular Fraud update reports are presented to the Standards and General Purposes committee.
- The annual financial planning process includes two rounds of budget scrutiny each year where the public can make representations in writing and at meetings. Budget monitoring reports are also presented and discussed at the quarterly Overview and Scrutiny Committee financial monitoring task group.
- There is an aligned Medium-Term financial strategy and Capital programme. Recommendations from the LGA review are included in Table 1.
- Review and challenge of PIs are established as part of service planning Review and challenge with monthly, quarterly and annual returns e.g. monitor if changes markedly from prior measure. London Authority Performance Solutions provides current comparison data across London for approximately 30 Indicators to compare and challenge if our data changes markedly and report to Corporate Management Team
- Performance reports on partnership working are produced for the Merton Partnership Executive Board.
- An LGA peer review was undertaken in 2019/20. This states that the council was working well but recommended some areas for improvement. Working groups have been set up to implement these, but this has been put on hold during to the current pandemic. A summary of the areas for improvement are included in table 1.
- The opinion of the external auditors in their reports and annual letter.
- Other review agencies, through their inspection arrangements, such as the Care Quality Commission and Ofsted.

5.3 The review has shown that the governance framework is consistent with the principles of the CIPFA / SOLACE best practice framework and the examples of the arrangements that should be in place. Internal Audit has reviewed the

effectiveness of the system of internal control for 2019/20. The Head of Internal Audit opinion based on this work, is that the system of internal control is generally sound and effective. Controls to manage principal risks are monitored by service managers. This includes services with statutory responsibilities for the safety of vulnerable people.

6 Internal Audit Outcomes

- 6.1 The Head of Audit is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In the Annual Report on the work of Internal Audit during 2019/20 the Head of Internal Audit is satisfied that sufficient internal audit work has been undertaken to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment.
- 6.2 The review of the governance framework in place at the London Borough of Merton up to the middle of March 2020 concluded that it is fit for purpose in accordance with the governance framework.
- 6.3 During March the council changed the governance arrangements, which are outlined in point 7 below. The impact on the control environment was managed during this period, whereby any changes would be agreed and reported or identified on the risk register.
- 6.4 An Internal Audit review of the impact of the changes to the control environment, have been on-going. This has included attending the Risk Management group to consider risks in relation to Covid 19, in particular on IT, Remote working, and also undertaking fraud checks on Business grant and discretionary grant payments. A Covid 19 audit, providing a high level review the decision making process, funding allocations is in progress with other shorter reviews to provide quick assurances and advice.
- 6.5 The Internal Audit Plan for 2020/21 has been adjusted to ensure that it covers the change in the risk environment. Assurance work will include a review of the impact on internal control, IT controls, assurance on funding streams and payments.

7 Impact of Covid 19

- 7.1 The impact of the COVID-19 pandemic in March 2020, changed the governance arrangements in the council as it focuses on the crisis.

) The council adopted formal London Resilience (Gold, Silver, Bronze) arrangements to manage the coronavirus response in the borough. This comprised a Gold Command team consisting of CMT members meeting regularly to discuss complex decisions, a Silver level group initially meeting daily to bring all decisions to one place and consider their impact and Bronze level departmental meetings, where issues around

staffing levels and service provision are resolved.

- J Formal Committees have continued to meet, including Cabinet, the Overview and Scrutiny Commission and the Planning Application and Licensing Committees. The Annual Meeting has been postponed until the autumn but there is a plan to hold an ordinary meeting of full Council in July to allow for appropriate member oversight.
- J A Covid 19 risk register was set up with daily updates to ensure oversight and control of the main risk areas.
- J Additional funding has been provided by central government to local authorities to cover additional costs. Funding has also been provided for Business and the voluntary sector. This by no means covers the full amount of the costs incurred and the income foregone as a result of the pandemic and officers and members are working closely to understand what this means for the Council's medium-term financial strategy.
- J Redeployment of council employees to key areas in place.

7.2 During 2020/21, the council will need to consider preparations to return to a new 'normal', lessons learnt and assessing the long-term impact and consequences of the pandemic

Table 1 Based on the review the following issues have been identified:

Issues	Action	Responsible Officer
A recovery plan for the easing of the lockdown and an assessment of the long-term disruption and consequences arising from the coronavirus pandemic	During 2020/21, as the lockdown eases, the council will start planning for recovery. This will have short term, medium term and long-term changes in place as an assessment is undertaken on services to restart, stop, retain or change. An Interim Head of Recovery has been appointed.	CMT
LGA review- summary of recommendations Develop a strategic vision for Merton as a place, with priorities that reflect the council's place-shaping role. The council's Business Plan reviewed to ensure that capacity is focused to deliver the new objectives. Review budget planning in line with the strategic vision to allow for the development of a clearer Medium-Term Financial Strategy. Rationalise internal governance to allow for more streamlined decision making. Improve the scrutiny function at the council, to ensure scrutiny of political	Working groups have been set up for 5 work streams, each with a senior management lead and a CMT lead. This work started in 2019/20 and has been put on hold due to the current pandemic but will recommence during 2020/21.	CMT

objectives through more effective agenda setting		
Corporate Business Plan & balanced budget	The Business Plan 2020-24 approved 04-03-2020. Following the Final Local Government Settlement, a balanced budget was achieved for 2020-21 with a budget gap on the MTFS rising to circa £9m in 2023-24. A Council Tax of 3.99% was set for 2020-21 which was within the referendum principles. Risk remains constant due to DSG Deficit and loss of income and increased expenditure due to Covid 19 response.	Director of Corporate Services
Annual Savings Programme (from 2019/20 action plan) We might fail to deliver the savings of £15.7m which have been agreed for the period 2020/21 to 2023/24 (the period of budget decisions required by this council).	The monthly monitoring report is forecasting a shortfall in savings in 2019/20 of £1.1 million (17%). Unfortunately, the impact of Covid 19 has meant that the shortfall increases to £2.1m in 20/21. Delivery of savings continues to be carefully monitored and reported as they are critical to balance the budget and reported to government for potential further support..	Director of Corporate Services
Brexit (from 2019/20 action plan) A working group of members and officers to monitor the impact of Brexit	Establish a corporate task group to review the implications of Brexit in detail and direct appropriate actions as required	Director of Corporate Services
Internal Audit work relating to Declaration of interests Officers The guidance was not readily available, and officers were not routinely completing the forms, those officers in a senior role, budget holder or those responsible for procurement. The declaration of interest form has been in the process of being updated for the last few years but has not been agreed.	A reminder has gone to employees to complete a declaration of interest form. The new form and guidance are in the process of being reviewed	Managing Director of Sllp and Assistant Director of HR
Public Contract Regulations/Contract Standing Orders (from 2019/20 action plan) and Internal Audit work relating to Procurement. Recent audit findings have found the following weaknesses: - Improvements required on	Regular training is now in place for managers on CSO. Issues identified in the audit have been discussed at the corporate procurement board and monitoring of compliance is included in the Operational Procurement Groups. Another internal audit review has been requested for 2020/21. A review and update of Contract	Assistant Director of Infrastructure and Transactions.

<p>compliance with CSO on tendering, exemptions and extensions to contracts Evidence of signed contracts or extensions letters (by both parties) not in place. Contract monitoring was found to be limited. Contract Register requires updating.</p>	<p>Standing Orders is being undertaken in September, in conjunction with a wider review of the constitution and the drive to improve compliance with legislative requirements is being further supported through the introduction of specialist procurement training for those individuals who are responsible for procurement as part of their normal duties.</p>	
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Table 2 Issues raised in 2018/19 Statement and progress to date

Key Issues	Action to be taken	Progress
<p>Financial Pressure (carried over to 2019/20) The comprehensive spending review is due in 2019 and will determine how much funding the council will receive. It is anticipated that there will be a significant budget gap by 2022/23 of £6.078 million</p>	<p>Once feedback from the Comprehensive Spending review and fair funding formula are received, the Medium-Term financial strategy and saving plans will be revisited. This will be kept under close review by CMT.</p>	<p>Following the Final Local Government Settlement, a balanced budget was achieved for 2020-21 with a budget gap on the MTFS rising to circa £9m in 2023-24. A Council Tax of 3.99% was set for 2020-21 which was within the referendum principles.</p> <p>- Risk remains constant due to DSG funding and now impact on Covid 19 on expenditure and income.</p>
<p>Asset Valuations (closed) The valuation process used by Merton's in house professionally qualified valuers has been reviewed in detail as part of the 2017/18 Account Closure and material misstatements have had to be corrected. It has therefore had a material impact on the financial accounts of the Authority and the completion of the statements by the required deadline.</p>	<p>An internal review will be undertaken to ensure that future valuation work is both accurate and timely.</p>	<p>This review has been completed.</p>

<p>Public Contract Regulations/Contract Standing Orders (carried over to 2019/20)</p> <p>This is currently identified as an area of high risk and further work identified to embed good practice. An on-line toolkit was launched in September 2018, training is being rolled out to promote the use of the portal and new documents and templates.</p>	<p>Operational Procurement Group reviews to be undertaken to ensure they are more effective. Commissioning Strategies to be refreshed and reviewed. Progress will be reviewed by the Corporate Procurement board.</p>	<p>A review and update of Contract Standing Orders is currently being undertaken, and the drive to improve compliance with legislative requirements is being further supported through the introduction of specialist procurement training for those individuals who are responsible for procurement as part of their normal duties.</p>
<p>New financial system (closed)</p> <p>This action was carried forward from 2018/19 and is in progress.</p>	<p>To complete the review of internal controls considering new financial system</p>	<p>This review has been carried out and further reviews will be on-going.</p>
<p>Brexit (carried over to 2020/21)</p> <p>A working group of members and officers has been established to monitor the impact of Brexit</p>	<p>The working group will monitor developments and potential impact on areas such as suppliers, recruitment and potential NRTPF. A report is due to cabinet later in the year.</p>	<p>Officers closely monitor developments on the Brexit negotiations and the potential impact for the council, citizens and businesses. This includes reviewing the Technical Notices, guidance from the LGA and other sector related assessments of possible implications. A session has been held with Collective DMT to identify risks. This has been reviewed by CMT and a task group of officers from across the council meets regularly to monitor developments and how the Council responds.</p> <p>Cabinet considered the implications of Brexit at their November 2018 meeting and the Overview and Scrutiny Commission are reviewing the</p>

		implications for citizens. One outcome of the Cabinet meeting was to establish a corporate task group headed by the CS Director to review the implications of Brexit in detail and direct appropriate actions as required
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7.3 We propose over the coming year to take steps to address the above matters to further enhance 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.

Signed: Leading Member

Signed: Chief Executive