

ANNUAL GOVERNANCE STATEMENT

1. SCOPE OF RESPONSIBILITY

Southampton City Council (“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 Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at <http://www.southampton.gov.uk/council-partners/decisionmaking/corporategovernance/> or can be obtained from the:

Head of Legal, Human Resources and Democratic Services,
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations (England) 2011 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes for the direction and control of the Council 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 Council for the year ended 31 March 2012 and up to the date of approval of the annual report and statement of accounts.

ANNUAL GOVERNANCE STATEMENT

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are as described below and include arrangements for:

- **Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

There is a clear vision of the Council's purpose and intended outcomes for citizens and service users that is communicated both within the organisation and to stakeholders.

The City of Southampton Strategy sets out a 20-year vision, up to 2026, which underpins aspirations for the city. The key priorities and challenges within this strategy were reviewed and revised during the course of 2010-11.

In April 2011 Southampton Connect was established as a successor to the Southampton Partnership to build upon our unique city collaborative ethos, relationships and networks. Southampton Connect brings together the private, public, community and voluntary sectors to work together in tackling the key city challenges facing Southampton thereby securing quality of life improvements for all those who live, work and visit the city.

The Southampton Connect Plan 2011-14 was launched in October 2011 and was developed in order to formalise Southampton Connect's work programme. It includes a long term vision for the city and describes a number of 'Priority Projects' that Southampton Connect will deliver. The Plan is based on a single comprehensive assessment of needs in the city, supported by resident feedback and both city profile and ward profiles.

The Southampton City Council Plan 2011-14 sets out the most important things that the council wants to achieve by 2014. It sets out the Council's commitment and overall approach to secure on-going improvements across the range of council services provided to residents, businesses and visitors to the city. The Council Plan is updated annually to reflect achievements in the previous period and priorities for the forthcoming period.

- **Reviewing the authority's vision and its implications for the authority's governance arrangements**

The Council has seven priorities and four key City challenges that shape the Council's policy framework plans and budget, and hence the Council's policy decision making and resource allocation process.

The Council has adopted a Code of Corporate Governance ("CCG") which identifies in one document how the Council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Monitoring Officer and is reviewed formally by Council's Governance Committee (formerly the Standards and Governance Committee) on a biennial basis. The Governance Committee assumed the responsibilities of both the Audit Committee and Standards & Governance Committee with effect from May 2012.

- **Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources**

The Southampton City Council Plan 2011-14 includes information 'How we performed on our key indicators', the key achievements in the previous period. It also includes Customer Feedback and the

ANNUAL GOVERNANCE STATEMENT

Challenges, Opportunities and Risks identified for the forthcoming period. In respect of the seven priorities, the Plan sets out 'What we said we would do in the previous period', 'How did we do' and 'What we will do' in the forthcoming period'.

- **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The Council has a Constitution that sets out how it operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The Constitution is divided into 15 Articles and sets out the detailed rules governing the Council's business. The Constitution may be accessed on the internet at:
<http://www.southampton.gov.uk/council-partners/decisionmaking/constitution.aspx>

- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council's Constitution contains both an Officer Code of Conduct and a new Members Code of Conduct under the Localism Act 2011. In addition, a 'Disciplinary Policy and Code of Conduct' is in place for employees and sets out the standards of service and conduct that are expected of employees. The Council also has in place an Anti Fraud and Anti Corruption Policy and Strategy which is published on the internet.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution includes information on how the council operates, how decisions are made and the role of overview and scrutiny. The Head of Legal, HR and Democratic Services conducts an annual review of the Council's constitutional arrangements, which is considered by the Council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the Council in May. All reports submitted to the Executive, the Council, a Committee or a Sub-Committee for a decision must receive corporate clearance in respect of legal, financial and policy implications prior to publication. Report authors' are also required to identify and report on any significant risks within the body of the report. In addition, there is published information on the Council's internet site regarding how the system of decision-making in Southampton works and how the public can have their voice heard ('Having Your Say').

- **Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)**

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on "The role of the chief financial officer in local government" (2010). The Head of Finance and IT (CFO) is professionally qualified and is a key member of the Management Board of Directors, helping to develop and implement strategy and deliver the strategic objectives of the authority. The CFO has direct access to the Chief Executive and is actively involved in ensuring all immediate and longer term risks and opportunities are considered, and ensuring the strategic

ANNUAL GOVERNANCE STATEMENT

objectives are aligned to the longer-term finance strategy. The CFO has an input into all major decisions, and advises on financial matters to the Executive. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for ensuring the finance function is fit for purpose.

• Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities

The Council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance to on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

• Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

'Corporate Standards' are published on the intranet and provide a summary of the most significant and important rules in the areas where the Council must achieve compliance. They cover Legality and Corporate Governance (including decision-making, Finance, IS/IT, Property and Procurement.

In addition, the Financial Procedure Rules, which provide the framework for managing the Council's financial affairs, and the Council's Contract Procedure Rules, which govern the method by which the Council spends money on the supplies, services and works, form part of the Council's Constitution.

• Whistle blowing and for receiving and investigating complaints from the public

The Council is committed to the highest possible standards of openness, probity and accountability and has in place both an Anti Fraud and Anti Corruption Policy and Strategy and a 'Whistle blowing' Duty to Act Policy. The latter reflects the legal framework and obligation on the Council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment.

Complaints from the public are dealt with in accordance with the Complaints Policy which has been formally approved and is published on the intranet. Separate policies are in place relating to complaints about Councillors and complaints in relation to social services and schools.

• Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The Council has a Member Development Strategy in place which is aimed at providing a long-term view to learning and development whilst remaining sufficiently flexible to reflect changing priorities. The Member learning and development programmes include the following:-

- Induction Programme;
- Member Mentoring Scheme;
- Regulatory Panel training;
- Skills training and workshops;
- Member Briefing sessions.
- Personal Development Planning;
- Cabinet Member training;
- Scrutiny training;
- Governance;

ANNUAL GOVERNANCE STATEMENT

Priorities for learning and development form part of the annual performance appraisal process with a requirement that training priorities link to achievement of objectives and service plans as well as on-going professional competence. Individual learning and development priorities are then used to develop Directorate Learning and Development plans. In addition, a 'Foundations of Management' programme is in place for all new managers who require an understanding of what is expected of them and provides an opportunity to develop core skills that will assist them in performing effectively in their role.

• Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The views of customers are at the heart of the Council's service delivery arrangements and the views of customers and staff are actively sought by services via questionnaires, text messaging, focus groups and community consultation events. 'Consultation' and 'Other ways to have your say' internet pages provide opportunity for stakeholders to voice their opinions and shape service delivery. For the first time, the Council has led a Southampton Connect effort to produce a single Southampton Profile which reflects consultation feedback where this is available. This is in addition to taking account of formal external assessments and comparative benchmarking data and other market research which the council uses to get opinions and perceptions on a variety of issues affecting life in the city. The feedback from stakeholders informed the Council Plan (2011-14).

In addition, Southampton Connect brings together the private, public, business, community and voluntary sectors to work together in tackling the key city challenges. This approach builds upon the city's unique collaborative ethos, relationships and networks, and represents a new way of working together to improve Southampton for the benefit of all those who live, work or visit the city.

• Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

A new revised Partnership Code is in place and forms part of the Council's Constitution. The Code has been developed to ensure that sound governance arrangements are in place. This forms an important element of the Council's overall framework for partner and partnership engagement and will continue to be reviewed as the partnership working arrangements develop and evolve.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

ANNUAL GOVERNANCE STATEMENT

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- the work of Members/Officers within the Council;
- audit and other periodic reports from the Head of Internal Audit;
- the Annual report and opinion of the Head of Internal Audit;
- the Audit Committee (now called the Governance Committee);
- reports received from service review agencies or inspectorates, and
- the external auditors in their annual governance report and the Annual Audit Letter.

• **The Authority**

The Council's Constitution forms the cornerstone of effective corporate governance. Whilst the Council's constitutional arrangements continue to be recognised as being of a high standard, Full Council agreed in 2002 that it would, on an annual basis, robustly review the Constitution and its operation. Full Council is the ultimate decision-making body as to the Council's Constitution. The purpose of the annual review and subsequent report is to bring forward any proposed changes to the Constitution, these having been considered by Governance Committee with a view to building upon the constitutional arrangements for the Council.

• **The Executive**

The Executive ('the Cabinet') make executive decisions relating to services provided by the Council, except for those matters which are reserved for decision by the full Council, and planning and licensing matters which are dealt with by specialist regulatory Panels. Proceedings of the Cabinet take place in accordance with Article 7 of the Council's Constitution.

• **Audit Committee**

The Council has a formally constituted Audit Committee (now called the Governance Committee) whose role it is to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

A range of service reports are submitted to the Governance Committee including the following:

- the Head of Internal Audit's annual report and opinion;
- review of the effectiveness of the system of internal audit;
- the Internal Audit Strategy and annual operational plan;
- summary internal audit reports across all portfolios;
- reports of external audit and inspection agencies;
- assurances that action is being taken on risk and control-related issues identified by the internal and external auditors and other assurance providers;
- the effectiveness of the Council's internal control, risk management and associated anti-fraud and anti-corruption arrangements;
- Treasury management Strategy; and
- the Council's Annual Governance Statement, financial statements and external auditor's opinion;

ANNUAL GOVERNANCE STATEMENT

- **Standards and Governance Committee**

The Council has a Standards and Governance Committee (now called the Governance Committee) with specific responsibility 'to lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct'. The Standards and Governance Committee receives a number of reports during the year including the draft report on 'Changes to the Constitution' (in its governance role) prior to the report being presented to Full Council. This Committee is also responsible for reviewing and approving the updated Code of Corporate Governance.

Note: From May 2012 a new 'Governance Committee' was created and has assumed the responsibilities of both the Audit Committee and Standards & Governance Committee.

- **Overview and Scrutiny Committees**

Overview and Scrutiny is a key mechanism for enabling Councillors to represent their constituents' views to the Executive to inform policy development. There is an Overview and Scrutiny Management Committee (parent committee) which manages this process and, in addition, a Health Scrutiny Panel. The Committee appoints other Panels as necessary to undertake the statutory review of the activities of key partners and to carry out scrutiny inquiries, which support the work of the Executive and the Council as a whole. These arrangements allow citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. These lead to reports and recommendations which advise the Executive and the Council as a whole on its policies, relationship with key partners and local service delivery. The Overview and Scrutiny Management Committee also monitors the decisions of the Executive. Members can 'call-in' a decision which has been made by the Executive but not yet implemented. This enables them to consider whether the decision is appropriate and they may recommend that the Executive reconsider the decision. The Overview and Scrutiny Management Committee are also consulted by the Executive on forthcoming decisions and the development of Policy Framework plans.

- **Risk Management**

The Council's overall strategy and approach to risk management is overseen by the Management Board of Directors.

The Council has in place a Risk Management Strategy and Policy which is reviewed annually and submitted to the Governance Committee for approval. In addition, an annual Risk Management Action Plan is developed with progress against the agreed actions being reported to the Governance Committee bi-annually. The Council has in place a 'Strategic Risk Register' which seeks to identify the key risks that may prevent or have a significant adverse affect on the achievement of the Council's key objectives. In addition, each Directorate develops and maintains its own risk register based on the 'key priorities and risks' identified as part of the corporate business planning process. Risk management also features as an integral part of the Council's Project Management methodology.

- **Chief Financial Officer**

The Council conforms to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer (CFO) in Local Government (2010).

ANNUAL GOVERNANCE STATEMENT

• **Internal audit**

The Council has a shared Internal Audit service whose role is to provide an assurance function that provides an independent and objective opinion to the Council on risk management, control and governance. Internal audit may also provide an independent and objective consultancy service, specifically to help management improve the Council's internal control, risk management, and governance. The Council's Internal Audit Strategy was approved by the Audit Committee in September 2007 and reviewed in June 2009. The Strategy outlines how the service will be managed, delivered and developed to facilitate:

- delivery of an internal audit opinion on the Council's internal control, risk management and governance arrangements, to inform the annual governance statement;
- audit of the Council's internal control, risk management and governance systems through periodic audit plans, in a way which affords due consideration to the Council's key priorities and significant risks;
- continuous improvement of the internal control, risk management and governance framework and processes within the Council;
- identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
- effective cooperation with the Audit Commission and other external review bodies; and
- provision of assurance, consultancy and advisory services by internal audit.

The Head of Internal Audit reports to the Governance Committee including progress against the annual internal audit operational plan and bringing to the attention of the Committee any significant control issues. The Head of Internal Audit has the authority to independently report at any time to the Chief Executive, Head of Finance and IT (CFO), Officers and Members.

In accordance with the Accounts and Audit (England) Regulations 2011, an annual review of the effectiveness of the system of internal audit is undertaken and reported to the Governance Committee. The Council's external auditors seek to place reliance on the work carried out by internal audit wherever possible.

In 2011/12 the delivery of a shared audit service with Hampshire County Council was progressed to build on the shared role for the Head of Internal Audit and this formally commenced in February 2012. This will further enhance the service providing depth of experience and expertise and improving resilience.

• **Other review/assurance mechanisms**

Assurances are sought from Directors regarding the effectiveness of the key controls within their areas of operation. The assurances are obtained via a 'Self Assessment' statement which is required to be completed in full and with due diligence by each Director. Internal Audit undertakes a sample check of the completed self assessments and supporting evidence and provide an overall opinion on the level of assurance that can be placed on the returns.

The review is further informed via the completion of a "Controls Assurance Framework" document developed in line with CIPFA guidance. It identifies the key components of the Council's overall governance and internal control environment. The document records the key controls in place and sources of assurance and identifies any gaps in key controls or assurance noting any improvements planned for the forthcoming period to address the identified gaps.

ANNUAL GOVERNANCE STATEMENT

5. SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

Issue	Action	Responsible Officer	Target for completion
1. The Partnership Code and Toolkit, that was adopted as part of the Council's constitution in 2009, no longer reflects the revised approach to partnership working.	A revised Partnership Code has been developed and adopted as part of the Council's Constitution. The Code is intended to ensure that sound governance arrangements are in place and forms an important element of the Council's overall framework for partner and partnership engagement. It will continue to be reviewed as partnership working arrangements develop and evolve.	Director of Corporate Services / Director of Environment and Economy	May 2012
2. A biennial review of the Review of the Council's Code of Corporate Governance ("CCG") was due in April 2012.	A biennial review is no longer considered appropriate in terms of being able to reflect significant changes in legislation that potentially impact on the CCG. The CCG will therefore to be subject to an annual 'light touch' review as part of the review of the constitution.	Director of Corporate Services	May 2013 and annually thereafter
3. The reduction in the number of Directorates and Director roles together with the rationalisation of management posts has reduced overall capacity and resilience.	A new Workforce Strategy (People Plan) has been drafted and it is intended to formally adopt this and start to implement its first "Foundation Year" in the Autumn .	Director of Corporate Services	Autumn 2012

I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

I/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

.....
Alistair Neill
 (Chief Executive)

.....
Councillor Richard Williams
 (Leader of the Council)

on behalf of Southampton City Council