

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 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 2003 as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 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 2011 and up to the date of approval of the annual report and statement of accounts.

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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 clearly communicated both within the organisation and to stakeholders.

The **City of Southampton Strategy** which sets out a 20-year vision up to 2026, underpins aspirations for the city. During the course of 2010/11 Southampton Partnership conducted a review and revised its priorities and challenges.

The **Southampton Partnership** is the local strategic partnership (LSP) for the city and brings together the private, public and community and voluntary sectors to work together in tackling the key challenges facing Southampton, thereby securing quality of life improvements for all those who live, work and visit the city. During 2010/11 the Southampton Partnership completed a fundamental 'root and branch' review of the current partnership arrangements in light of the agreed city challenges and national best practice. This review was completed with the agreement in February 2011 that a new successor body ('Southampton Connect') will replace the Southampton Partnership from April 2011. The new Southampton Connect collaborative model is a radical departure from our previous partnership approach, as it aims to build on personal relationships, networks and goodwill to work together through a 'task and finish approach' wherever possible to tackle our city priorities and challenges.

The Southampton Partnership has overseen the delivery of Southampton's Local Area Agreement ("LAA") which is a three-year agreement between central government and key partners working together in an area to deliver joined-up public services which meet local people's needs. Southampton's 2008-11 Local Area Agreement was approved by the Secretary of State for Communities and Local Government and comprises of 34 'designated' targets, 16 'statutory' targets and a number of local indicators carried forward from the previous LAA. In 2010/11, The Southampton Partnership Delivery Board approved the basis for the allocation of the final LAA Performance Reward Grant and agreed arrangements for the allocation of this grant. They agreed to set up a Cross Service Development Fund to secure the delivery of cross organisational efficiencies, the development of shared public sector services, support arrangements or facilities within the city and the implementation of initiatives which underpin the delivery of the city's agreed 3 Community Based Budgeting / Total Place initiatives.

The **Corporate Plan** 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 and reflect the organisations agreed priorities and values. It demonstrates the organisation's commitment to securing the statutory duty of best value in all aspects of service delivery. It also reflects the leadership role of the Executive in delivering the Council's policy objectives, value for money and service improvement for the benefit of residents and businesses in the city. The 2010/11 Corporate Plan reflected local priorities, as well as known national policy and budgetary changes which will have a significant impact on the city.

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

The Council has six agreed priorities and five organisational values that shape the Council's policy

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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 Standards and Governance Committee on a biennial basis.

- **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 Corporate Plan provides key information on the quality and level of services provided by the council. It sets out key performance targets and improvement initiatives for the ensuing year including the approved budget for each Portfolio. The Plan, which is approved by Council, includes a range of performance measures which are monitored on a quarterly basis.

- **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 Members Code of Conduct that have been formally approved and widely communicated. In addition, a 'Code of Conduct and Disciplinary Rules' exists for employees which details 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.

- **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 Solicitor to the Council conducts an annual review of the Council's constitutional arrangements, which are considered by the Council's Standards and 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').

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- **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 conforms to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer (CFO) in Local Government (2010), the CFO is professionally qualified, reports directly to the Chief Executive and is a member of the leadership team, with a status at least equivalent to other members.

- **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 Audit Committee, who operate in accordance with CIPFA guidance, and whose role it is to provide independent assurance to the Council's Standards and Governance Committee 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, freedom of information and data protection), 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 this is reflected in one of the Council's core organisational values which states that 'we will work with integrity, openness and honesty'. There are a range of interrelated policies and procedures in place that seek to create an anti fraud and anti corruption culture. This includes a Duty to Act Policy which 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. In addition, a corporate complaints process and policy is in place which has been formally approved and communicated to all relevant staff, the public and other stakeholders.

- **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;
- Personal Development Planning;
- Member Mentoring Scheme

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- Cabinet Member training;
- Regulatory Panel training;
- Scrutiny training;
- Skills training and workshops;
- Standards and Governance; and
- Member Briefing sessions.

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 Southampton Partnership, which is the Local Strategic Partnership for the City of Southampton, has its membership drawn from private, public, voluntary and community sectors in order to act collectively as a strategic force for change.

The views of citizens and stakeholders are seen as important in prioritising and measuring the quality and value for money of council services. This is in addition to taking account of formal external assessments and comparative benchmarking data. The views of local people and communities are sought in many ways both formally (i.e. the 2010 City Survey) and informally (i.e. Neighbourhoods Management meetings, public meetings and consultation events, market research polls, input from voluntary sector forums and networks and through methods specifically designed to involve children and young people in making positive decisions about the issues that are important to them). In addition, the 'Your City, Your Say' Budget Consultation was undertaken and aimed to engage local residents in the process of developing council budgets and priorities and to help identify potential cost and efficiency savings that may enable the Council to offset reductions in government spending and grant funding. Alongside this work, the Council also ran a 'Your Council, Your Say' consultation with its staff – giving them the opportunity to use their insight to identify solutions that may generate revenue or reduce inefficiency within the organisation.

• 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 Partnership Code is in place and forms part of the Council's Constitution. The Code has been developed to ensure that where the Council leads a partnership and/or co-ordinates its work, it will do so ensuring sound governance is in place, but within a flexible, efficient and robust approach to such engagement. This forms an important element of the Council's overall framework for partner and partnership engagement.

The Code covers key partnerships established by the Council that have been charged with developing specific strategies or plans and are 'held to account' for the delivery of those strategies or plans. The Code applies equally to Government initiated 'statutory' partnerships as well as nationally required and/or locally determined 'non-statutory' partnerships.

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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.

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 Chief Internal Auditor;
- the Annual report and opinion of the Chief Internal Auditor;
- the Audit Committee;
- the Standards and Governance Committee;
- reports received from service review agencies or inspectorates, and
- the external auditors in their 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 Standards and Governance Committee (in its governance role) 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 whose role it is to provide independent assurance to the Standards and Governance Committee 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.

The Council's Internal Audit, Risk and Assurance service reports to the Audit Committee on the following:

- the Chief Internal Auditor's annual report and opinion;
- review of the effectiveness of the system of internal audit;
- the Internal Audit Strategy and annual operational plan;

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- 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; and
- the Council's Annual Governance Statement, financial statements and external auditor's opinion;

• **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. The Committee appoints 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. Scrutiny 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**

Risk management activity is co-ordinated by Chief Officers Management Team. This followed a transfer of responsibilities during the year from Council's 'Resources Board' which no longer sits.

The Council has in place a Risk Management Strategy and Policy which is reviewed annually and submitted to the Audit Committee for approval. In addition, an annual Risk Management Action Plan is developed with progress against the agreed actions being reported to the Audit 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 is required to develop and maintain its own risk register which is developed around 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.

• **Standards and Governance Committee**

The Council has a Standards and 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'. Throughout the course of the year the Standards and Governance Committee receives the draft report on 'Changes to the Constitution' (in its governance role) prior to the report being presented to Full Council, an annual report on 'Internal complaints and local government ombudsman's complaints' and the 'Annual Governance Statement' for review and approval. This Committee is also responsible for reviewing and approving the updated Code of Corporate Governance.

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- **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), the CFO is professionally qualified, reports to the Director of Corporate Services and is a member of the leadership team, with a status at least equivalent to other members.

- **Internal audit**

The Council has an Internal Audit function 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 covers a five year period to 2011. The Strategy, which was reviewed in June 2009, 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 Chief Internal Auditor reports to the Audit Committee including progress against the annual internal audit operational plan and bringing to the attention of the Committee any significant control issues. The Chief Internal Auditor has the authority to independently report at any time to the Chief Executive, Chief Financial Officer, Officers and Members.

The Internal Audit Section is subject to regular review by the Council's external auditors who seek to place reliance on the work carried out by the section. An annual review of the effectiveness of the system of internal audit is undertaken by the Audit Committee.

- **Other review/assurance mechanisms**

Assurances are sought from Executive Directors regarding the effectiveness of the key controls within their areas of operation. The assurances are obtained via an 'Annual Governance Statement – Self Assessment' statement which is required to be completed in full and with due diligence by each Director. Internal Audit then undertakes a sample check of the completed self assessments and supporting evidence and provides 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.

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5. SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Issue	Action	Responsible Officer	Target for completion/ implementation
1	Guidance in respect of the governance of partnerships, including how it relates to shared services, to be reviewed and updated to reflect changing circumstances.	The Partnership Code and Toolkit, adopted as part of the Council's Constitution in 2009, is to be reviewed to ensure that it is aligned with the revised approach to partnerships as reflected in the new Southampton Connect collaborative model . Formal shared service arrangements with other authorities or organisations are generally governed via contracts or Service Level Agreements. As these expand a review may be required to consider whether a revision to the Constitution and guidance is required.	Director of Economic Development / Director of Corporate Services	May 2012 (in the expectation that it will require a change to the Constitution and would there need to be presented at the Council's Annual General Meeting).
2	Ensure consistent understanding of the council's corporate standards by relevant officers.	A review of corporate standards is to be undertaken to ensure that the arrangements currently in place are appropriate, robust and fit for purpose. This will then shape and inform the associated training and development activities which are targeted to commence from October 2011 onwards.	Director of Corporate Services	March 2012
3	Governance arrangements in respect of the management of health and safety will not enable the provision of an appropriate level of assurance to officers and members that the health and safety compliance regime is robust.	Governance arrangements for health and safety accountabilities to be through a Health and Safety Management Board comprising the Chief Executive, Directors and Capita. This Board is to meet on a quarterly basis.	Director of Corporate Services	March 2012
4	Changes being made to directorate and management structures in order to develop and improve the organization and ensure that effective services are delivered to its customers	The changes to directorate and management structures are intended to focus on delivering high quality, low cost services that meet customer needs and will be reflected in the employment (job description), constitutional and governance framework to ensure clarity of roles and responsibilities.	Chief Executive / Director of Corporate Services	March 2012

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I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Standards and Governance Committee and Audit 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

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Alistair Neill
(Chief Executive)

on behalf of Southampton City Council

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Councillor Royston Smith
(Leader of the Council)