

Annual Governance Statement

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, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

<http://www.southampton.gov.uk/council-democracy/corp-governance/>

or can be obtained from the:

Director of Legal and Governance
Southampton City Council
Civic Centre
Southampton
SO14 7LY

This statement explains how the council has complied with the local code and meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures, and values by which the council is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that:

- it does the right things;
- in the right way;
- for the right people; and
- in a timely, inclusive, open, honest, and accountable manner.

Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk. Delivering good governance is a process of continuous review and improvement.

The system of internal control 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

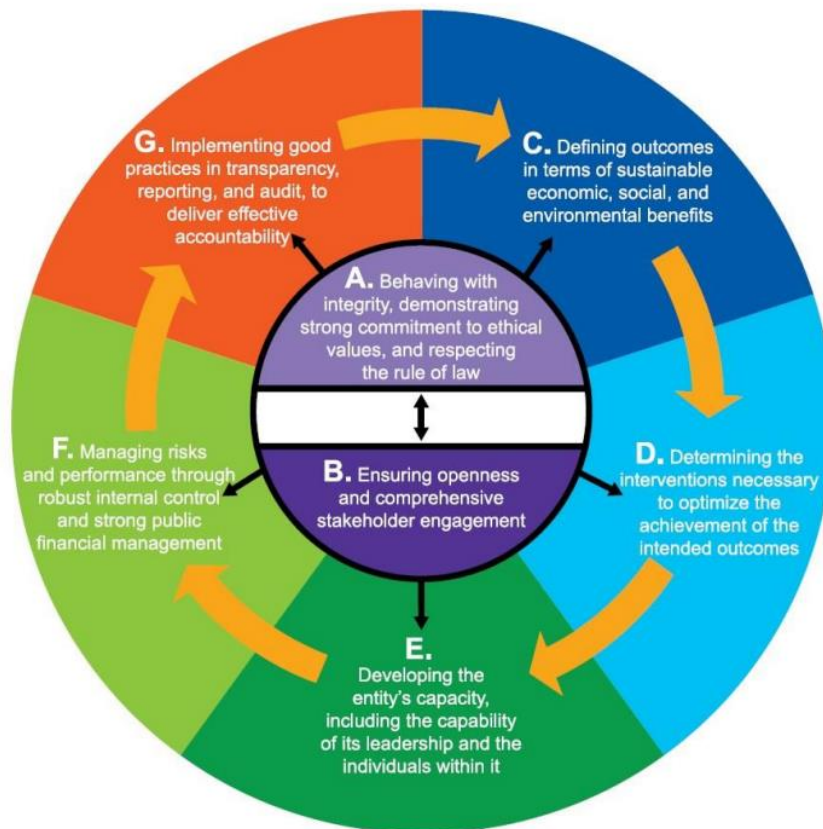
Annual Governance Statement

objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place at the council for the year ended 31st March 2024 and up to the date of approval of the statement of accounts.

The Governance Framework

The diagram below, taken from the International Framework: Good Governance in the Public Sector, illustrates the various principles of good governance in the public sector and how they relate to each other.



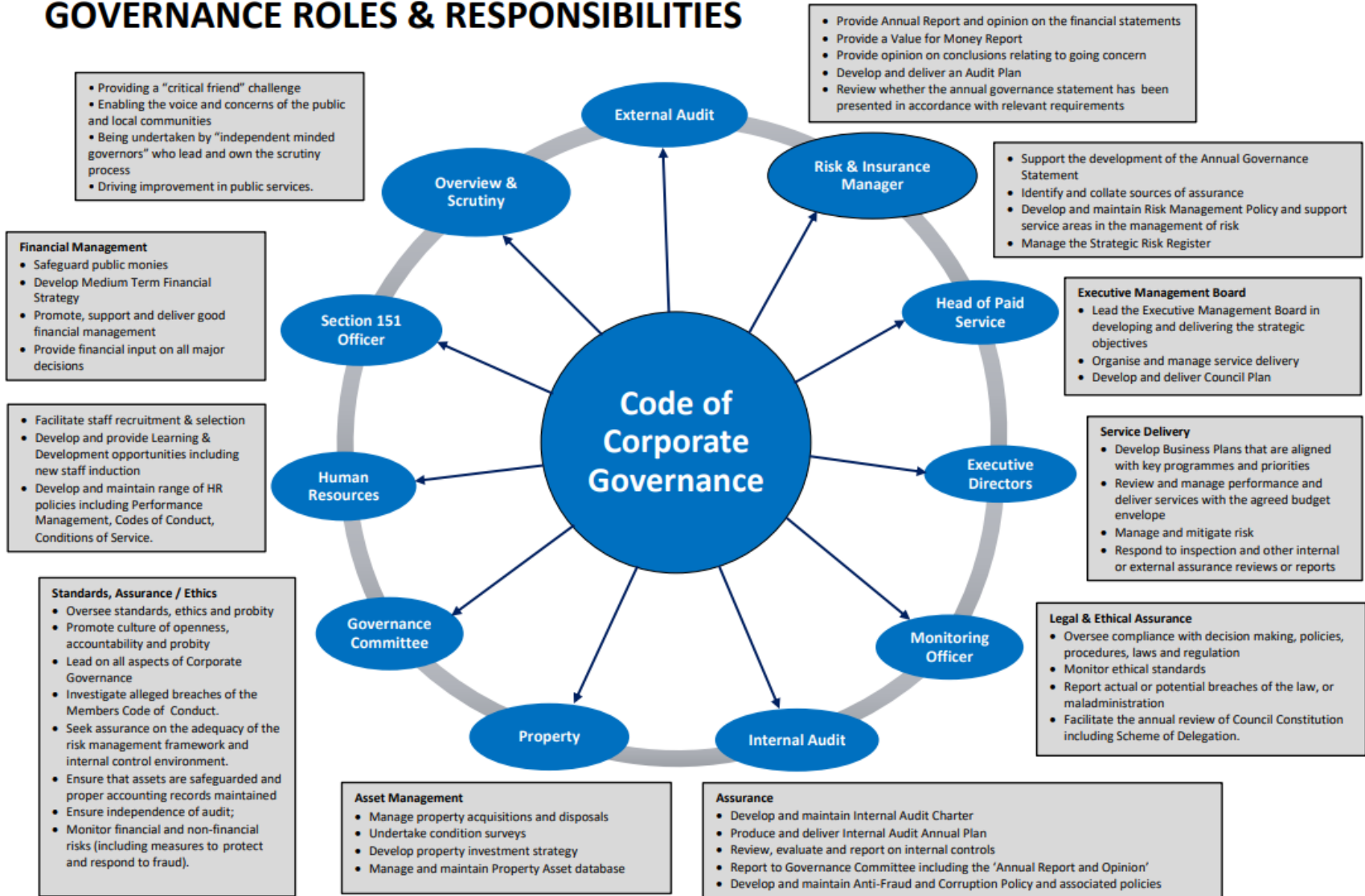
The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

The council's governance framework comprises:

- A suite of governance and strategic policies and documents;
- Its systems and processes of governance;
- The council's culture and people that direct and control the authority and its activities and through which it engages with the community and other stakeholders.

Annual Governance Statement

GOVERNANCE ROLES & RESPONSIBILITIES



Annual Governance Statement

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The council's **Constitution** sets out how the council operates, how decisions are made and the procedures which are 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 which set out the basic rules governing the council's business. The Constitution is published on the council's website at:
<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both **Officers' and Members' Codes of Conduct** which set out the expected behaviour and standards to be adhered to. In addition, there is a **Code of Conduct for Employees** which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Director of Legal and Governance is the **'Monitoring Officer'** and has responsibility for ensuring compliance with established policies, procedures, laws, and regulations, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A **'Whistleblowing (Duty to Act) Policy'** is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an **'Anti-Fraud, Bribery and Corruption Policy'** that applies to any actual or suspected internal or external fraud, bribery, corruption, and dishonest dealing that involve the council and or its Members and staff. It also applies to contractors, suppliers, partners, agents, intermediaries, and service users. The council also has in place an **'Anti-Money Laundering policy'** which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

The council also participates in the Cabinet Office's **National Fraud Initiative** which is a data matching exercise to assist in the prevention and detection of fraud. The council is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise.

Investigations and special reviews into suspected fraud or irregularities are overseen by an **'Investigation Steering Panel'**, comprising the Monitoring Officer, Chief Internal Auditor and the Section 151 Officer (Executive Director of Corporate Services).

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a **'Corporate Services and Adult Social Care Complaints Policy'** that is published on the council's website and explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to the conduct of Members are dealt with under the **Members' Code of Conduct**.

In addition, a "paper" complaints form is made available at "in person" contact points e.g. Libraries and Housing Offices etc, to make complaints, compliments and comments accessible to those without internet access.

Annual Governance Statement

On an annual basis the Director of Legal and Governance presents a report to the council's Governance Committee on 'Local Government and Social Care Ombudsman Complaints' and a separate 'Annual Review of Complaints' report.

The council's '**Social Value and Green City Procurement Policy**' aims to ensure that Council's suppliers, bidders and other stakeholders are aware of the Council's commitment to long-term social, ethical, environmental and economic sustainability and how they are expected and required to contribute.

The council also has in place a **Modern Slavery and Human Trafficking Statement** which sets out the Council's current position and future plans to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and/or in its supply chains. In addition, Modern slavery and human trafficking is included within the council's safeguarding training for children and adults as well as there being e-learning training and associated guidance available to all staff.

Principle B. Ensuring openness and comprehensive stakeholder engagement

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The **council's website includes a 'Have your say' section** which provides information to residents, customers, and other stakeholders on how they can 'have their say' on various issues, including via:

- Consultations
- Surveys and research
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings.

Southampton City Council runs a broad **city survey** every few years to collect resident views on a range of topics. It provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. **Surveys have been conducted in 2014, 2016, 2018 and 2020.** Each year a set of common Local Government Association (LGA) questions are included, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time, as well as questions relating to emerging priority areas. The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- Transport
- Wellbeing

The results from the 2020 Southampton City Survey, together with past reports, can be downloaded from the Southampton Data Observatory. **The next City Survey is planned for later in 2024.**

The council has in place a '**People's Panel**', which is open to any resident over the age of 18 to join, and comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city and provides an opportunity to influence how services are delivered, highlight issues, and help shape public services in the community. Run by Southampton City Council, and with support from the University of Southampton, the People's Panel

Annual Governance Statement

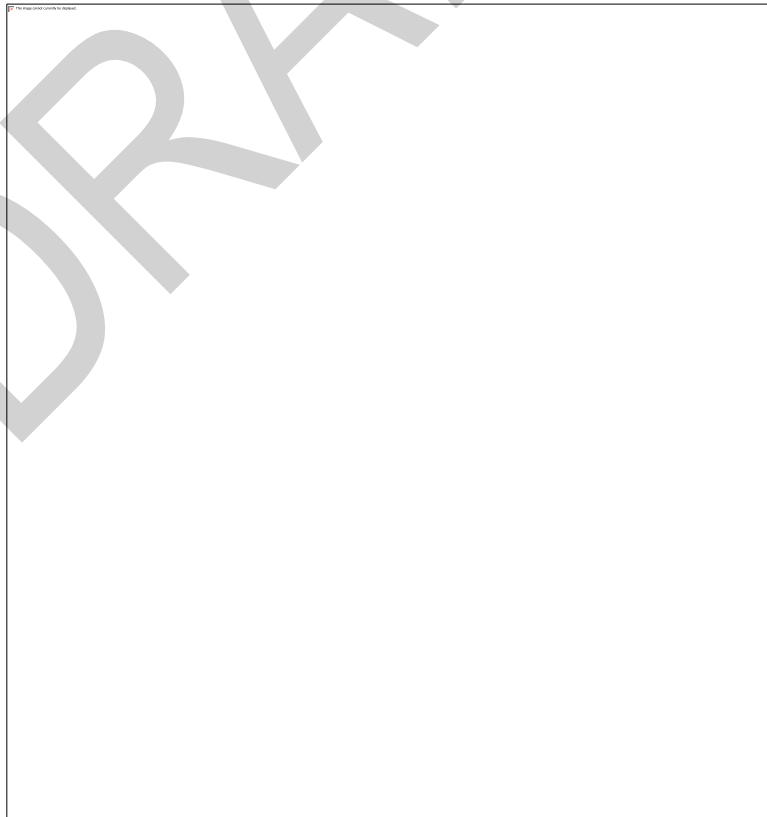
has been active since 2015 and the results from our surveys have been used to inform a number of decisions and service changes. To understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity, and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on children and young people in the city, and in 2022, Southampton City Council started working with UNICEF UK to become a **Child Friendly City**. The programme aims to create cities and communities in the UK where all children – whether they are living in care, using a children's centre, or simply visiting their local library – have a meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives.

Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The council has in place a **2022-30 Corporate Plan** which sets out the council's direction for the next eight years and shows how it will play its part in fulfilling the city's huge potential. The Corporate Plan articulates the organisational vision, goals and areas of focus of the Council over the next eight years and aligns to other key strategies across the Council such as Health and Wellbeing, Safe City Partnership, Economic and Green Growth and Children and Young People and supports key internal strategies.

The **Corporate Plan was updated in March 2024** to reflect the financial pressures facing the council and the strategy to achieve financial stability through transformation and economic growth. The core goals within the Corporate Plan have been reviewed and refined, with outcomes that focus on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives have been developed that provide more specifics around areas of focus to make that step-change, and the business planning framework will ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals.



Annual Governance Statement

As part of this update the **employee values** were also reviewed and have been evolved to reflect how individuals and service areas work best together in challenging times of great opportunity.



A **Corporate Performance Framework** is in place, and being further developed to ensure that there is the right overview of performance across the organisation. As part of this, a regular Key Performance Indicator (KPI) report is to be developed to ensure council performance is aligned with the Corporate Plan and demonstrate progress towards achieving the outcomes and objectives. These reports will be shared and discussed within the council regularly to ensure that progress is being made and updates will also be provided on the council's website.

There are also other key strategies that reflect the vision and ambition of both the city and wider region, including the **Southampton City Strategy** (2015-2025) which is a partnership strategy that sets out the vision for the whole city. The strategy was developed in partnership with representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

At a sub-regional level there is a triumvirate of key strategic organisations, the **Partnership for South Hampshire ('PFSH')**, the **Solent Local Enterprise Partnership ('LEP')** and **Solent Transport**, that manage the policy agenda in the sub-region.

The **PfSH** is a partnership of twelve local authorities around the Solent, including Southampton City Council, that aims to improve the environmental, cultural, and economic performance of the South Hampshire area. The PfSH brings the partner organisations together at both a political and managerial level with a 2021-2025 Business Plan that sets out the focus of its' work. The PfSH is focused on supporting economic growth, delivery of housing and the infrastructure to achieve this in a sustainable manner, and to maintain and enhance the quality of the environment. The PfSH work will be a key element in developing statutory planning policy for the city by [a] demonstrating at a strategic level that the 'duty to cooperate' requirements are being achieved and [b] in helping to identify how housing growth and related infrastructure can be delivered to meet the needs of the city within a sub-regional context. The PfSH engages with a range of other local organisations, stakeholders, and Government to achieve these aims.

Local Enterprise Partnerships (LEPs) are non-statutory bodies that were created to promote economic growth and job creation. They are business led partnerships with additional representatives from local authorities, as well as academic and voluntary institutions. The Solent LEP was established in 2010-11 with the board s drawn from the area's key business, universities, the further education sector, and local authorities. In August 2023 the Government issued a letter confirming their support for Upper Tier Local Authorities ('UTLAs') to take on the functions currently delivered by LEPs and made it clear that they will no longer fund LEPs with core funding from April 2024.

Annual Governance Statement

The Government requested that UTLAs submit an integration plan on or before the 30 November 2023, for the integration of LEP functions. The three Solent UTLAs, Southampton, Portsmouth, and the Isle

of Wight, submitted an integration plan and have determined to form a partnership to deploy the devolved responsibilities of the Solent LEP. The Solent LEP has confirmed that they intend to cease operating as soon as possible after 31st March 2024 and have set up an alternative company, Solent Partners, with aspirations to continue to support the economic development agenda in the Solent.

Solent Transport is a sub-regional transport partnership that comprises Portsmouth, Southampton, the Isle of Wight, and Hampshire County Council. Solent Transport and its partner bodies are important members of Transport for the South East. The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence, and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders, and other agencies to deliver transport infrastructure, networks, and systems crucial to keep the region moving and generate economic growth, wealth, and sustainability.

In July 2021, Government invited expressions of interest from Local Authorities who were interested in progressing **dialogue over devolution of powers through a 'County Deal'** approach. Hampshire County Council unilaterally submitted their prospectus for a County Deal to Government in October 2022. Subsequent discussions between Government officials and Chief Executives of the upper tier authorities took place, but it would require a substantial amount of work, if any deal was able to progress, with geography and governance remaining as critical issues.

Southampton Council is a Member of the **Solent Freeport consortium**. The Solent Freeport will encompass Southampton and Portsmouth, as well as areas of the New Forest, Isle of Wight, and southern Hampshire. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery, boosting the local economy and creating additional local jobs. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivize private sector investment.

Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The council has in place a robust **decision-making process** that clearly sets out the actions and accountability in terms of when, how and by whom decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why it is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

The council's **Overview and Scrutiny Management Committee** ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice

Annual Governance Statement

of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The **Scrutiny Inquiry Panel** carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the **Health Overview and Scrutiny Panel** undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the **Children and Families Scrutiny Panel** scrutinises services for children and families in the city, including education.

In 2022 the Council, through the Local Government Association (LGA), commissioned the **Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review** to assist the council to consider how it might enhance its approach to governance and decision-making. The CfGS is a nationally recognised charity which supports local authorities to ensure sound governance practices are in place and is an independent body and this work was undertaken at no cost to the council. In particular the review considered and commented on:

- The consistency of decision-making systems
- The speed of those systems
- Clarity in who leads on, and makes, decisions
- Checks and balances with regard to the above
- The expectations of both members and officers with regard to the above

The review was based on a range of interviews with members and officers, detailed examination of a very small number of decisions, supplemented by a more general review of Cabinet and scrutiny committee papers, the Forward Plan and other relevant material. A final draft report was presented in the Summer 2022 for consideration and initial thoughts and observations. The CfGS reflected on those responses and produced the final report in September 2022 which was subsequently presented to the council's Governance Committee in November 2022. Following that, a 10-point Action Plan was agreed by Governance Committee in November 2022 and incrementally implemented in 2023.

The CfGS carried out a follow up review in Winter 2023. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESIA's (impact assessments) were to be progressed through externally facilitated workshops by CfGS and the LGA. Unfortunately these had to been deferred due to CfGS's work programme being refocussed to support other authorities, but are being planned for Autumn 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is scheduled for the second half of the year,

Principle E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council has had a new **People Strategy** in place since the beginning of 2023, called '**Our People**' that aims to create an organisation where people can be the best of themselves, grow and do their finest work, making Southampton a city of opportunity. Our People sets out a high-level vision, priorities, desired outcomes, with an action plan to drive this forward.

Our People strategy sits alongside both the Medium-Term Financial Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development, and drive positive change and the delivery of agreed outcomes.

The council has in place leadership development modules for senior leaders intended to allow them to learn, and share insights and expertise based on the following development areas:

- Continuous Improvement
- Creativity, Innovation and Commercial Mindset/Entrepreneurial
- Cultural Change
- Leading Change

Annual Governance Statement

- Making Difficult Decisions
- Performance Management

There are also learning modules and programmes in place aimed at people new to line managing others, existing team leaders, and managers up to middle managers. These are based on the council's core values and built around the leadership competencies with one of the modules being 'Ethics and Values' which explores the seven principles of public life and the values and behaviours that underpin these.

In respect of Elected Members, a revised internal **Member Induction and Development programme** was delivered that offered a suite of learning and development opportunities via targeted service focused sessions or via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training events and courses were delivered by the 'Local Government Association and South East Employers. These opportunities ranged from 'being a new councillor', supported skill development such as chairing meetings, to portfolio based learning and leadership development training. The LGA have also offered coaching programmes for newly elected Cabinet Members. Members are asked for feedback on the programme and their feedback is incorporated as part of the annual review and refresh to ensure we continuing of offer a comprehensive and wide ranging suite of learning and development opportunities to support all members.

The council also has in place a **Workplace Equalities Policy** which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves.

Principle F. Managing risk and performance through robust internal control and strong public financial management

The council's **Governance Committee** has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance. The Committee receives a range of periodic reports relating to both the internal control environment and financial management, including receiving the draft Statement of Accounts.

Risk management is an essential component of the Council's overall governance and internal control arrangements and provides the framework and processes to enable the council to manage risk in a systematic, consistent and efficient way. The council has in place a **Risk Management Policy 2022-25** which is intended to assist officers, at all levels, in applying sound risk management principles, practices and judgement across their areas of responsibility. It is also relevant to Members in their capacity as 'decision takers' and the Governance Committee in respect of its responsibility for overseeing the Council's risk management processes and arrangements

The Governance Committee receives an **Annual Risk Management report** that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months.

A key element of the council's risk management framework is the council's **Strategic Risk Register** which is developed in consultation with Executive Directors. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. The Strategic Risk Register is updated on a

Annual Governance Statement

quarterly basis with a report presented to the council's Executive Management Board. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

In addition to the council's Strategic Risks, it is recognised there are other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. During 2023 the council's Executive Management Board agreed that **Directorate Risk Registers** should be developed to capture those significant risks within the service areas that may not be considered as cross-cutting or of be of such significance that they would be considered a 'strategic risk'. The risks captured in a 'Directorate Risk Register' would be typically be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

Effective financial management is key to managing the delivery of council services. The council's **Medium Term Financial Strategy ('MTFS')** provides the strategic financial framework and forward-looking approach to financial planning for the council and is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the council's financial position, taking account of known pressures, major issues affecting the council's finances, external economic influences, local factors and helps the council to plan for these to pressures and issues so far as these can be seen and assessed. This is particularly important during a period when the council faces considerable pressures and challenges. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services.

Against a backdrop of a challenging economic climate, the council is facing significant pressures however it is focused on right sizing its expenditure and budgets to meet the resources available whilst delivering on the Corporate Plan. There is full recognition of the financial situation and a new **Financial Strategy** was developed and implemented during 2023/24, and is for 2024/25 onwards, which aims to balance the council's finances in the medium term.

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the **Chartered Institute of Public Finance and Accountancy (CIPFA)** were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation, and later in the year to conduct a review of forecasts to provide external validation. CIPFA's report highlighted the reliance on reserves to meet gaps in the council's budget. This has led to balanced budgets being achieved but has eroded the council's reserves. CIPFA recommended that a plan to replenish reserves should be put in place, and that the council needed to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these. The new financial strategy, which is informed by CIPFA's findings, sets out the following five steps to achieve the aim of stabilising the council's general fund account to create a sustainable council:

1. Review budgets to establish the financial position.
2. Right sizing the budget to ensure there is clarity on affordable expenditure levels.
3. Stabilisation to remove in year overspend and ensure the structural deficit has been addressed and reliance on reserves removed.
4. Sustainable budget to ensure the council is sustainable and able to withstand economic and financial shocks.
5. Purposeful investment – all investment, either revenue or capital, to have a clear purpose and strong business case

A number of recommendations to strengthen the council's financial management arrangements were also made by CIPFA following its review and a '**Financial Management Improvement Plan**' has been developed to address those recommendations.

Annual Governance Statement

The council made an application to the government for Exceptional Financial Support (EFS) to help balance the 2024/25 budget and provide for other costs and potential liabilities. Confirmation was received in a Ministerial Statement on 29 February 2024 that the government was minded to support the council by providing an EFS facility for 2024/25. The EFS will be in the form of a 'capitalisation direction', which will allow the council to treat revenue costs as capital expenditure and fund these from capital receipts or borrowing. There are two conditions attached to the EFS – firstly, the council must produce a Transformation and Improvement Plan and secondly, the government will commission an External Assurance Review on the council's use of EFS and progress in its plans to close the structural budget deficit in 2025/26 and beyond.

An **Improvement Board** was established in 2023 with external subject matter experts providing critical challenge and overseeing the progress to a sustainable budget.

The council's financial management arrangements conform to the governance requirements of the CIPFA '**Statement on the Role of the Chief Financial Officer**' ("CFO") in Local Government. The Executive Director of Corporate Services (Section 151 Officer and CFO) is professionally qualified and is a key member of the Executive Management Board and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and also alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

During 2023/24 a **revised business planning framework** was drafted which aligns all business planning activity to strategic objectives, savings proposals and change activity, enabling both short-term challenges and longer-term goals to be addressed. Due to the council's challenging financial position, the focus in 2023/24 was on ensuring that savings proposals were identified, and cash limited budgets achieved however service level business plans, using the revised framework, will be in place in 2024/25.

All significant **commercial partnership working arrangements** also have a range of performance indicators which are used to monitor, verify, and manage service performance as well as separate arrangements in respect of monitoring and assessing financial risk. The council is committed to achieving best value from its procurement activities and contracts and ensuring that goods, services, and works are procured, and contract managed in the most efficient and effective way throughout the lifecycle of the contract. Regular review meetings are held with key suppliers to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our service providers.

Principle G. Implementing good practices in transparency, reporting and audit, to deliver effective accountability

The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The '**Council Data**' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

The council's **Constitution sets out how decisions are made** and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the council and by council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Director of Legal and Governance.

Annual Governance Statement

The council produces a **Forward Plan of all Key Decisions** which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and are published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA statement on '**The Role of the Head of Internal Audit in Public Service Organisations** (2019 Edition)'. This is aligned with the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality, and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (e.g. the Governance Committee).

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 led by a 'Controls Assurance Management Group' comprising the Executive Director Corporate Services (Section 151 Officer), Chair of the Governance Committee, Director of Legal and Governance, and the Chief Internal Auditor.

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

- The views of Internal Audit regularly reported to Governance Committee via periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as 'No Assurance' are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, reported to the Governance Committee, including the Audit Planning report, the Annual Audit Letter, the Audit Results Report, and the Auditor's Annual Report.
- The Chief Internal Auditors 'Annual Report and Opinion' for 2023/24 was that.... **To be reported to the Audit Committee in July [note: the overall assurance level will remain at 'Limited Assurance' with a continuation of the themes referred to last year around emerging strain on the control environment associated with delivery of organisational and transformational change]**
- The Internal Audit Charter and delivery of the annual Internal Audit plan.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment.
- The 'AGS Self-Assessment Statements' completed by Heads of Service and reviewed by the relevant Executive Director. The self-assessments cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on

Annual Governance Statement

CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls.

- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission and including any external reviews that the council may choose to commission such as the exercise undertaken by the Centre for Governance and Scrutiny or CIPFA
- The Annual Risk Management report that is presented to the Governance Committee.
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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 that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation and later in the year to conduct a review of forecasts to provide external validation. Despite implementing a new financial strategy and taking actions during the year to reduce net spend including implementing a cost control panel, a balanced budget for 2024/25 was only able to be achieved with Exceptional Financial Support (EFS) from the government. Subject to meeting the conditions attached to the EFS offer, this will allow revenue expenditure to be capitalised in 2024/25 and provide time for the development and implementation of a transformation programme to bring service delivery back within the resources available in future years. The next financial year (2024/25) will be a critical year for the council as it implements measures to restore financial stability and sustainability and addressing the structural budget deficit (circa £40M for 2024-25).

To strengthen the council's financial management arrangements CIPFA made a number of recommendations following its review and a '**Financial Management Improvement Plan**' was subsequently developed and approved.

Planned Action: The agreed 'Financial Management Improvement Plan' is implemented in 2024/25 together with delivery of a 'Reshaping Financial Management Project'. These have been established to secure improvements in financial management across the organisation and will be fundamental in terms of supporting effective delivery of the agreed transformation plans in 2024/25 and beyond.

Responsible Officer: Director of Finance / Executive Director Enabling Services

Target date for completion: End Q4 2024/25

2. Governance Issue

One of the conditions attached to the Exceptional Financial Support is that the council must produce a Transformation and Improvement Plan. This will have an impact on the capacity of and reliance on key staff during this period of significant change.

Annual Governance Statement

Planned Action: As the detailed scoping of the transformation and change programme develops the demand on roles across the organisation is being mapped together with an assessment of the overall requirement. Wherever possible and reasonable, resource will be utilised across multiple projects/programmes to maximise capacity. Additional resource will be required and some is already being secured. A prioritisation exercise will be undertaken once the full picture is better understood.

Responsible Officer: Director of Strategy and Performance / Transformation Director

Target date for completion: End July 2024

3. Governance Issue

In 2022 the Council commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. A 10-point Action Plan arising from their report was formulated and agreed with the actions implemented throughout 2023/24. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESIA's (impact assessments) had to be deferred.

Planned Action: This action was intended to be addressed via externally facilitated workshops by the CfGS and the LGA however this had to be deferred due to the CfGS's work programme being refocussed to support other authorities. These are now being planned for Autumn 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is scheduled for the second half of the year.

Responsible Officer: Director of Legal and Governance/ Executive Director Enabling Services

Target date for completion: Autumn 2024/25

4. Governance Issue

Whilst service business continuity arrangements were used in response to Covid such that critical services were maintained and corporate BCP structures worked, they are required to be reviewed periodically to ensure that they remain fit for purpose and reflect current working arrangements and services.

Directorate-level draft Business Continuity plans are being reviewed with support provided by the Emergency Preparedness, Resilience & Response Team ('the EPRR team') to 'Critical Activity Owners' and Service Level Plan owners using new revised templates. Plan owners were expected to publish in Q4 2023-24 however engagement across the authority is inconsistent.

Completion of the plans will also allow IT to understand the requirements/expectations of service areas in respect of critical IT reliant activities.

Planned Action: An Executive Level Business Continuity exercise has been planned to identify gaps in plans, at corporate and directorate level, and to test current arrangements. This will focus on strategic response to an IT failure. This exercise was scheduled to take place in Q1 2024/25 but has had to be rescheduled for Q2 2024/25.

In the meantime directorates have been recommended to nominate a designated business continuity lead to support plan reviews and provide consideration of corporate resilience in any service redesign. The EPRR team will continue to provide support and guidance to those designated individuals tasked with updating and refreshing their Service Business Continuity arrangements, with tabletop exercises able to be arranged to support the completion of plans and test current arrangements.

Annual Governance Statement

The EPPR team will be participating in the Local Resilience Forum's ResilienceDirect Business Continuity exercising and encouraging directorates to support this exercise to further develop their business continuity knowledge and engagement.

Responsible Officer: Head of Emergency Preparedness, Planning & Response / Executive Director Resident Services

Target date for completion: Q3 2024/25

5. Governance Issue

During 2023-24 it was identified that a reinvigorated business planning approach needed to be designed to better support business and budget planning over the short and medium term and be aligned with the new Corporate Plan.

The revised business planning framework, which aligns strategic objectives, savings proposals and transformation activity to the Corporate Plan and the MTF5, was developed in 2023-24 however the roll out of the new approach was deferred due to the focus being on the significant financial challenge and recognising the need for it to be aligned with the new Financial Strategy.

Planned Action: Roll out and embed the new Business Planning process. This will be supported by a cross organisational Business Planning & Performance group which is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others. Through the planning process, agreed performance measures will be identified, tracked and reported on at appropriate regularity. The framework approach also addresses risk identification, mitigation and tracking of actions.

Responsible Officer: Director of Strategy and Performance

Target date for completion: End Q3 2024/25

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

.....
Andrew Travers
Chief Executive

.....
Councillor Lorna Fielker
Leader of the Council

on behalf of Southampton City Council