

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker	Audit Committee
Date of Decision	28 June 2012
Decision Title	Annual Governance Statement
Decision Reference	4076
Report From:	Chief Executive and County Treasurer

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1. Executive Summary

- 1.1 Appendix C to this report contains the draft Annual Governance Statement which, pursuant to the Accounts and Audit (England) Regulations 2011, must be approved by the Audit Committee before the end of September 2012 in order for it to accompany the signed and dated Statement of Accounts. The Annual Governance Statement must subsequently be signed by the Leader of the County Council and the Chief Executive.

2. Contextual Information

- 2.1 The County Council is required pursuant to the Accounts and Audit (England) Regulations 2011 to produce a broad based Annual Governance Statement. The Annual Governance Statement has replaced the Statement of Internal Control. The draft Annual Governance Statement set out in the Appendix C is the fifth such statement that has been produced on behalf of the County Council.
- 2.2 Once approved by this Committee the Annual Governance Statement must be signed on behalf of the County Council by the Leader of the County Council and the Chief Executive.
- 2.3 The Annual Governance Statement is an important and integral part of the County Council's Corporate Governance regime.
- 2.4 The Annual Governance Statement provides a review of the effectiveness of the County Council's internal control systems and gives assurances about how effectively they operate.
- 2.5 Guidance supplied by the Finance Advisory Network of the Chartered Institute of Public Finance and Accountancy (CIPFA) has been considered in the preparation of the draft Annual Governance Statement.

3. Methodology

- 3.1 In September 2011 Departmental Corporate Governance Questionnaires were sent out to all Chief Officers seeking assurances about Corporate Governance in their Departments..
- 3.2 In February 2011 Officers performing key corporate roles on behalf of the County Council were asked to produce an appropriate position statement based on the CIPFA Financial Advisory Network Guidance.
- 3.3 A copy the emerging Annual Governance Statement has been sent to all Chief Officers, officers undertaking key corporate roles on behalf of the County Council and the Leader of the County Council for comment. The comments received have been taken into account in preparing the draft Annual Governance in Appendix C.

4. Draft Annual Governance Statement

- 4.1 The content of the draft Annual Governance Statement follows the CIPFA Finance Network Guidance. Members of this Committee now have the opportunity to comment upon it and to indicate whether or not they wish to see any amendments made.

5. Outline of Options

5.1 Option 1

Approve the Annual Governance Statement as drafted.

5.2 Option 2

Approve the Annual Governance Statement with amendments proposed by this committee.

5.3 Option 3

Reject the Annual Governance Statement.

6. Recommendation

- 6.1 It is recommended that the Audit Committee approves the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive, subject to any amendments that this Committee may wish to make.

CORPORATE OR LEGAL INFORMATION:

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because: The preparation of an Annual Governance Statement is a statutory requirement.

OTHER SIGNIFICANT LINKS:**Links to Previous member decisions:**

Title	Ref	Date

Direct Links to Specific Legislation or Government Directives

Title	Date
Accounts and Audit (England) Regulations	2011

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
CIPFA Finance Advisory Network –Rough Guide to the Annual Governance Statement	
Departmental Corporate Governance Questionnaires	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

a) N/A

2. Impact on Crime and Disorder:

N/A

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

N/A

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

N/A



Hampshire
County Council

ANNUAL GOVERNANCE STATEMENT 2011/2012

FOR

HAMPSHIRE COUNTY COUNCIL

AND

HAMPSHIRE PENSION FUND

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards.
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.
- there is a sound system of internal control which facilitates the effective exercise of the County Council's functions and which include arrangements for the management of risk.

The County 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 available on the County Council's Web site.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel. The Panel, which meets regularly, is comprised of County Councillors, representatives of Unitary and District Councils, pensioners and pension contributor's representatives. The Panel is also advised by an external independent adviser.

This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement during 2011-2012

2. The purpose of Corporate Governance

The governance framework comprises the systems and processes, and cultures and values, by which the County Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the County Council to monitor the achievements of the County Council's 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 the 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 risk to the achievement of the County 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 Hampshire County Council for the year ending 31 March 2012 and up to the date of approval of the annual report and the statement of accounts.

One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:

- a detailed questionnaire being sent every year to all Chief Officers
- consultation with other relevant Officers throughout the County Council.

The questionnaires, which are revised and updated on each occasion, cover a wide range of Corporate Governance issues. They refer to the existence, knowledge and application within departments of governance policies generally, but also concentrate on specific issues which have been identified as having greater significance to the County Council.

In line with the revised Internal Audit Strategy adopted by the County Council in December 2007, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.

The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.

Departmental Corporate Governance Questionnaires were sent out to Chief Officers in October 2011.

3. Establishing principal statutory obligations and organisational objectives

3.1 Mechanism established to identify principal statutory obligations

The County Council's Constitution, adopted from 1 September 2001, sets out the processes by which the County Council's policies are made and decisions taken. It sets out clearly the role of:

- the County Council
- the Leader
- Cabinet
- arrangements for the performance of regulatory functions
- arrangements for scrutiny
- the Standards Committee
- the role of the Audit Committee
- key roles of the Chief Officers and Statutory Officers

The Constitution also contains arrangements for the delegation of decision making to the above bodies and also to Chief Officers and others.

In addition, Appendices to the Constitution contain a range of Codes and Protocols including

- rules on Financial Regulations
- rules on Contract Standing Orders
- Codes of Conduct for Members and Officers
- Protocol for Member/Officers relations

In order to ensure compliance with policies, procedures and statutory requirements the County Council has a range of controls and processes in place, as set out and reviewed below. These processes also help the County Council ensure the efficient effective and economical use of resources, to secure continuous improvement in the exercise of its functions, and to provide effective performance management and reporting.

The Audit Committee receives regular reports from both external and internal audit, and the minutes of the Audit Committee demonstrate that effective action is taken where issues of non-compliance have been identified.

All County Council decisions are made in accordance with the County Council's Decision Making Protocol (agreed in 2001). The Protocol requires all reports for decisions, whether by the Executive or by Committee to be submitted in advance for both legal and financial consideration.

All reports are considered by appropriately qualified legal and finance staff with expertise in the particular function area. Legal staff have direct access to a well equipped library on site, and through the internet to the Lexis Nexis electronic legal information system. Processes and policies within Legal Services have also been quality assured through the award of Lexcel which is the Law Society's quality accreditation scheme, annually reviewed by external independent assessors, and also through Investors In People accreditation.

All legal staff have access to training courses, and regular internal sessions are organised for the whole of Legal Services on topics of specific and general relevance to their roles and responsibilities. Senior lawyers within the service have regular meetings with Chief Officers and senior clients to assess performance, review future demands, and identify new legislative demands.

An Officer group comprising the Monitoring Officer and representatives from Democratic and Member Services, Legal Services and the Policy and Performance Unit has been established to specifically monitor new legislation. The Legislation Implementation and Review Group meets quarterly and provides an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to

implement it. During 2011-2012 the group focused on the Localism Act, the Health and Social Care Act and the Police Reform and Social Responsibility Act.

The County Treasurer operates a system of Devolved Finance Units, each with a Head of Finance working closely with the relevant Chief Officer and reporting to the Deputy County Treasurer. The Head of Finance, County Treasurer and Deputy County Treasurer work together to ensure that both corporate and departmental financial perspectives are taken into account in all papers for decision, and attend meetings to advise further as appropriate. A clear process of escalation for major issues that arise is in place within the Department ensuring that strategic issues are dealt with at the appropriate level

3.2 Mechanism in place to identify principal organisational obligations

The County Council remains committed to the three overall priorities set out in the corporate strategy. These priorities are approved by Full Council; and are in place for the life of the administration. Priorities are clearly communicated on the County Council website and through various communications.

A new Performance Management Framework was launched in 2011. As part of this, a new County Council Business Plan has been developed, identifying the medium term priorities for the organisation (aligned to the three overarching corporate priorities). The *Open for Business* Plan 2011-13 encompasses the efficiencies and expenditure reduction work streams; major change areas; and the main departmental priorities (e.g. safeguarding). Priorities are also informed through feedback from service users and residents; outcome of inspection; performance benchmarking; and national policies and initiatives. The Plan contains actions across finance, workforce, performance and customer focus/communications – securing full integration.

Activities and targets are drawn from work stream plans and department level business plans; and cascaded through service plans and Individual Performance Plans. Clear guidance for the preparation of department and service plans is available on Hantsnet; and this is currently being revised in line with the new Performance Management Framework. The *Open for Business* Plan 2011-13 has been approved by the Corporate Management Team (CMT) and Cabinet. Progress against the Plan is monitored on a quarterly basis, with an annual report providing a full evaluation of performance. Areas for improvement will be incorporated in a refresh of the Plan for 2012/13.

The *Open for Business* Plan links to the following partnership plans, outlining the local authority contribution to these cross-cutting areas of work:

- Hampshire's Children and Young People's Plan, which is the overarching strategy for services for children and young people in the county.

- The emerging Joint Health and Well-being Strategy, the strategy of Hampshire's Health and Well-being Board.

Priorities are communicated internally and externally through integration with all communications activity.

Business and Financial Planning take into account the service and budgetary impact of working with external partners. The County Council has recognised that this is an area of increasing risk for the future as partnerships expand and as greater reliance is placed on securing and maintaining partner contributions to support service provision. The 2012/13 budget contains separate contingency provision to reflect this risk and close financial planning is undertaken with key partners, particularly Health given the changes arising from the restructuring of the NHS and the move to Clinical Commissioning Groups (CCG's).

3.3 Effective Corporate Governance arrangements are embedded within the County Council

The County Council adopted a Code of Corporate Governance that complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) guidance at a meeting of the Governance Committee on 27 March 2008.

The Monitoring Officer and the Chief Internal Auditor (for the Section 151 Officer) have close working relationships both between themselves, and with the Standards Committee, and the Audit Committee.

An Officer Corporate Governance Group was established in 2009. The group includes the Monitoring Officer, the Chief Internal Auditor and other officers involved in corporate governance. The role of the groups is to support the work of the Audit Committee and its terms of reference include:

- Continuous review of the County Council's Corporate Governance Framework
- participation in the preparation of the County Council's Annual Governance Statement
- review of the implementation of the Action Plan set out in the Annual Governance Statement
- identification of actions to be included in the following year's Action Plan

The Standards Committee has responsibility for maintaining high standards of probity amongst Members through the provision of advice and training and by carrying out investigations of complaints received.

The Audit Committee has audit focused terms of reference and in accordance with CIPFA/SOLACE guidance the Chairman of the Audit Committee is not a member of the Executive. In addition no other members of the Audit Committee are members of the Executive.

Responsibility for overseeing Corporate Governance is formally delegated and documented through the Constitution to the Audit Committee. The terms of reference for the Audit Committee are contained within the Constitution.

Internal Audit is required to comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and its prescribed professional standards. Assurance that these Standards are met is provided through the annual review of the 'Effectiveness of the System of Internal Audit' and ISO quality accreditation.

The Audit Committee approved the Internal Audit Strategy and Plan for 2011/2012 (March 2011) and continues to monitor performance and the progress of significant issues, including the implementation of management actions. This plan was based on a revised Internal Audit Strategy for 2011 to 2014, as approved by the Audit Committee at its meeting in December 2010.

The Chief Internal Auditor submitted an Annual Audit Report and Opinion to the June 2012 Audit Committee on the effectiveness of the control framework

3.4 Performance management arrangements are in place

As outlined above, a new Performance Management Framework was launched in 2011, and it provides a robust and coherent way of managing and improving services across the organisation. It is based on a cycle of continuous improvement.

Key components are as follows:

(a) Planning:

- County Council priorities (the three corporate aims, as described above)
- The *Open for Business* Plan (as described above)

(b) Doing:

- Department Business Plans (as described above)

(c) Monitoring

- Monthly reporting on efficiencies
- Quarterly reporting on performance against the *Open for Business* Plan, to CMT and Cabinet
- Annual departmental self-assessment
- County Council Annual Performance Report

Transparent processes are in place for regular reporting to CMT and Cabinet. CMT are responsible for providing support and challenge, in order to manage performance against the *Open for Business* Plan.

In addition, departments have robust mechanisms for performance management.

Performance management arrangements are enhanced by a thorough and fully embedded system of budget forecasting and monitoring which focuses on:

- annually updated three year budget projections and a three year capital programme.
- detailed quarterly budget monitoring reports on revenue and capital to the relevant executive Member.
- development of capital themes as part of the 2012/13 budget leading to the corporate prioritisation of new capital investment of £244 million.
- a risk based approach to budget monitoring ensuring that reduced resources within the Treasurer's Department are targeted to high risk areas
- ability of Select Committees to scrutinise monitoring reports.
- overall budget monitoring report to Cabinet on a quarterly basis.

Performance information is published online and easily accessible for staff, partners and the public, together with transparency data which is compliant with the Government's guidance.

The county wide Efficiency Cost Reduction and Transformation programme began in July 2010 and is the principal means by which the County Council is addressing its grant reduction and improving efficiency. The County Council achieved savings of all but £2.5 million of the £55 million target in 2011-2012 and separate detailed monitoring was put in place reporting monthly to CMT, and then on to Cabinet in reports in the latter part of the year, ensuring high levels of focus and commitment to securing the savings that had been proposed. The shortfall was met from contingencies that had been put aside for that purpose.

A further £45 million target is required for 2012-2013 and after the full year effect of 2011/12 savings have been taken into account, only £21.7m of new proposals are required to be implemented in 2012/13, as approved by Cabinet in February 2012. A similar arrangement for the monitoring of the achievement of savings during the year will continue for 2012/13.

Forward financial planning for 2015/16 onwards has already begun in light of Government announcements about the prospects for a further difficult Comprehensive Spending Review in 2014. Changes in respect of the Local Government Resource Review, the transfer of Public Health, the localisation of Council Tax Benefits and other strategic financial issues are being reviewed constantly by the County Council in partnership with Hampshire District Councils, Chief Financial Officers and with colleagues in Health and other County Council's.

The financial reductions across the County Council led to a review of the central support functions of the County Council. The review considered

how Corporate Services are organised, what they do, and how they do it. The primary purpose of this review was to create a modern business function providing integrated management capacity to a large democratic organisation capable of higher performance and lower cost than existing financial provision.

The expectation is that implementation of the review will lead to significant cost reduction and greater effective integration whilst providing capacity and flexibility to support future initiatives such as shared and traded services. External consultants were engaged to ensure that the County Council considered the best options from both the public and private sectors.

4.1 Focusing on the purpose of the County Council and on outcomes for the community and creating and implementing a vision for the local area

The County Council has a clear vision and purpose, articulated through the three priorities and the Open for Business Plan. The Plan (described above) provides a coherent, shared vision for the organisation. Implementation of these ambitions is through department business plans and efficiency/transformation work streams.

The vision of the County Council, as embodied in the three priorities, is reviewed with each political administration. *Open for Business* priorities are expected to last three years, but are reviewed on an annual basis and refreshed as necessary.

Partnerships are underpinned by a common vision, that is understood and agreed by all partners. Clear governance structures are also in place. For example, the Hampshire Senate has brought together all key partners in Hampshire with five aims:

- to deliver the 2008-11 Local Area Agreement (*now concluded*);
- to bring people together to keep government as local as possible;
- to add value to, and reduce the costs of, public service through working with all the public services and partners;
- to act as a strong local voice for Hampshire;
- to secure extra government funding for our infrastructure needs.

Other examples include:

- the emerging Health and Well-being Board;
- the Children's Trust;
- the Local Safeguarding Children Board;
- the Safeguarding Adults Board.

The Performance Management Framework establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the *Open for Business*

Plan and an annual self-assessment, to be completed by departments. The County Council's Annual Performance Report is published on the website and publicised through targeted communications activities. The Report includes key achievements and a summary of performance, as well as the financial position.

The County Council has an effective and comprehensive department and corporate complaints system which allows for any failures in service delivery to be properly dealt with; and lessons learnt. Areas for improvement identified through service user feedback and complaints are addressed through the department and service planning processes.

The County Council considers that the achievement of value for money in the delivery of its services is fundamental. The County Council's performance against this criteria can be demonstrated by the following factors:

- benchmarking of spend compared with service quality i.e. lower quartile council tax and 'excellent' rated performance;
- all post-Gershon targets for efficiency gains exceeded and broad achievement of meeting four years worth of CSR 2010 savings over 2 years
- integrated planning which links corporate priorities and areas for improvement to the budget setting decision process;
- high levels of capital investment which shows that short term gains are not pursued at the expense of long term value for money and investment in 'invest to save projects' such as extra care and the development of an energy strategy;

the Annual Audit & Inspection Letter 2011 (2010/11 conclusion) commented positively on the County Council's Value For Money arrangements stating:

"I issued an unqualified audit conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources. My work in support of this conclusion found that as a Council, you:

- prepared your accounts on time and complied with the accounting code of practice for Local Government;
- delivered your 2010/11 budget;
- approved a balanced 2011/12 budget and responded promptly to the government's spending review;
- set a challenging target to deliver savings in costs over two years that will meet the funding cuts that have been announced for the four year period to 31 March 2015;
- started on the implementation of a significant transformation programme to more effectively deliver key priorities and services within a tighter financial envelope; and

- established levels of reserves that, subject to the strategy outlined in the medium term financial plan, provide a stable financial position.”

The County Council is also keen to ensure that it measures the environmental impact of policies, plans and decisions. The standard template for all decision reports examines the wider impacts of decisions on a range of issues, and where appropriate the County Council commissions specific environmental impact studies to inform the decision making process.

The County Council continues to meet the expected standards, delivering good outcomes for local people.

4.2 Members and Officers working together to achieve a common purpose with clearly defined functions and roles

The County Council has a comprehensive Constitution, accessible on its website, which sets out the roles of the Council, Cabinet, Executive Members, Committees, the Chief Executive who is allocated the role of Head of Paid Service, Chief Officers and other senior Officers.

In 2009-10 the Director of Children’s services was appointed Deputy Chief Executive and the role of Assistant Chief Executive was created. These appointments provide additional senior management capacity for the County Council.

The Constitution also allocates the statutory roles of Section 151 Officer to the County Treasurer and that of the Monitoring Officer to the Head of Governance. Details and descriptions of both roles and their responsibilities are contained within the Constitution.

In 2010 the Chartered Institute of Public Finance and Accountancy issued a Statement on the Role of the Chief Financial Officer in Local Government, outlining the principles that define the core activities and behaviours that belong to the role of the Chief Financial Officer and the governance requirements needed to support them. A self-assessment confirms that the County Council’s financial management arrangements conform with the governance requirements of the CIPFA Statement as outlined below:

- the County Treasurer is a key member of the Corporate Management Team, helping it to develop and implement strategy and to resource and deliver the County Council’s strategic objectives sustainably and in the public interest
- the County Treasurer 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 alignment with the Medium Term Financial Strategy

- the County Treasurer leads the promotion and delivery by the County Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively
- the County Treasurer leads and directs a finance function that is adequately resourced to be fit for purpose
- the County Treasurer is professionally qualified and suitably experienced.

The relationship between Members and Officers is enforced by an established Member/Officer Protocol.

The County Council has appointed and maintains an Independent Remuneration Panel pursuant to the requirements of the Local Authorities (Member Allowances) (England) Regulations 2003 which meets in open session and carry out an annual review of the Member's Allowance Scheme. The Panel makes recommendations to the Employment in Hampshire County Council (EHCC) Committee who, having considered the IRP's recommendations, make recommendations to the County Council. Should any amendments be required to the Council's adopted Scheme throughout the year, the same consideration/approval process is followed.

The Members' Allowances Scheme for 2012/13 was approved by the County Council on 23 February 2012 and is published on Hantsweb as part of the Council's Constitution. Administration of the Scheme is overseen by the Head of Member Services and supported by effective and robust business processes.

For Officers, all issues relating to remuneration and terms and conditions are managed by the Council's Employment in Hampshire County Council Committee (EHCC) which is advised by the County Treasurer, Director of HR and Head of Workforce Projects, Planning & Remuneration.

Performance management arrangements and the respective roles of officers and Members in monitoring service delivery are described above.

In relation to partnership working, the County Council has published guidance on governance and roles and responsibilities for officers and members alongside other information and advice on partnership working. See: <http://intranet.hants.gov.uk/partnerships.htm>.

A corporate group which includes representatives from all departments reviews this guidance. Additionally, linked to the County Council's risk management, regular audits of the Council's partnership approach are carried out.

4.3 Promoting values for the County Council and demonstrating the values of good Governance through upholding high standards of conduct and behaviour

The County Council's Constitution is founded on it operating in an open and transparent way, and for the Leader of the County Council and the

Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and respect.

The County Council is committed to the highest ethical standards and has adopted a wide range of policies to re-enforce this philosophy as well as procedures to investigate them should the need arise. These policies and procedures include:

- Members and Officers Codes of Conduct
- Member/Officer protocol
- Standards Committee
- Complaints Procedures
- Anti fraud and corruption policy
- Standing Orders governing the conduct of Council business
- Contract Standing Orders
- Financial Regulations
- Guidance on Partnerships
- Performance Management system
- Investors in People and a system of individual performance plan appraisal.

An effective Standards Committee is in place, which has taken on in accordance with the Standards Committee (England) Regulations 2008, responsibility from the Standards Board for England for the local initial assessment (and where appropriate investigation and determination) of complaints against Members of the County Council.

Major corporate partnerships have terms of reference and receive regular performance updates. The partnership guidance as detailed above provides information and protocols for officers and members when working in partnership.

4.4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The County Council's Constitution together with its Decision Making Protocol ensures that appropriate legal and financial advice is given and also that decisions made are open and transparent. The County Council determined several years ago that openness in the individual Executive Members decision making would go beyond minimum Statutory requirements by ensuring that, subject to confidential items, all such decisions would be made in public.

A Report Writing Guide is available on the intranet following a recent review which informs those preparing reports. All decision reports whether by the Executive or by committee are submitted in advance for both legal and financial consideration. A decision making record clearly documents the decision(s) made together with other considerations in accordance with legislative requirements. All decision reports and decision records are published on dedicated pages on the web in accordance with well established business practices. Exemptions from publication in the case of confidential or exempt reports are approved by the Monitoring Officer.

All decisions are made in accordance with the County Council's Decision Making Protocol. A corporate decision making report template is available to download to ensure that a consistent approach is taken across all departments in terms of report preparation together with the inclusion of timely and relevant information/evidence to inform the decision maker. All reports go through a robust QA process. Within portfolios/areas of service responsibility, Executive Members, Committee Chairmen and Vice-Chairman, Minority Group Spokespersons and local members are routinely briefed in relation to pending business.

Advice is available to Members from the Monitoring Officer and Deputy Monitoring Officer on any aspects of the Members Code of Conduct or conflicts of interest that may arise either before or at the point where a decision is to be made.

Within their own areas of responsibility, Executive Members, Committee Chairmen and Vice Chairmen, Minority Group Spokespersons and Local Members are routinely briefed in relation to pending business. After County Council elections, all Members take part in a comprehensive New Member Induction Programme, both generic and specific, to support them in the exercise of their duties as County Councillors. The Members' Induction Programme includes a module on decision making. Ongoing training is additionally available through the County Council's own established monthly Briefing Programme and via external seminars, conferences and briefings. A Member Development Working Group has recently been established to promote continuous development with the assistance of Hampshire Learning Centre and other organisations such as South East Employers and the Improvement and Development Agency.

Executive decisions are recorded in accordance with the requirements of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000. Internal protocols govern legal and financial requirements by way of consultation internally, as indicated with the Head of Legal Services and the County Treasurer. Internal protocols also govern the preparation and publication of the County Council's Forward Plan, and the publication of all County Council, Cabinet, Executive Member and Committee Agenda, Reports Decision Records and Minutes.

The maintenance of an effective scrutiny function is supported by a dedicated resource for scrutiny by designated officers located in the Democratic and Member Services Unit . Reviews are regularly shared with Executive Members and partner agencies as appropriate and resulting action monitored. Working arrangements with District Authorities are in place as are wider networks for health overview and scrutiny.

There is a well established Reporting Concerns at Work (whistle blowing) Policy in place which is published on the County Council's Web site.

The role of Monitoring Officer, supported by other members of Legal Services, is also critical in ensuring that all decisions made are legally and soundly based.

There is a comprehensive risk management framework in place with effective processes for reporting on risk. Through the Risk Management Board, chaired by the Deputy Chief Executive, risk management is embedded into the culture of the County Council so as to better influence decision making. Regular briefings on risk are made to the Executive Member with responsibility for risk management. Assessments of risk to the County Councils major change programmes are regularly reported to the Cabinet and Executive Members

4.5 Developing the capacity and capabilities of Members and Officers to be effective

All new Officers and Members joining the County Council undergo an Induction Programme.

For Officers the Corporate Induction Programme is underpinned by a service-specific induction. The Individual Performance Planning (IPP) process ensures that Officers identify and update their knowledge and skills on a regular basis. In addition IPP facilitates the identification of training requirements. This is subsequently used to develop departmental training and development plans.

The skills required by Officers to undertake their roles are identified within the person specification for the particular job in question, and an assessment is made of the individual's competence against these during the selection process. Further skills assessment for Officers is undertaken during the annual IPP process and these are incorporated within service and departmental training plans.

The County Council's Management and Leadership Competencies form the basis of how managers and leaders within the County Council need to develop themselves and others to be even more effective. Implicit within the Competencies is a recognition that to be fully effective, individuals need to be able to positively challenge and scrutinise information presented to them. The "Vision and Direction" and "Stakeholders' and Partnerships" Competencies also identify the need to work with others, particularly when expertise is not available internally. The County Council's IPP process has been further developed to ensure that individual development needs can be identified and on the basis of this, departmental training plans developed.

The range of training and development programmes available within the County Council has also increased and can be accessed both on-line and face to face delivery. In particular, an emphasis has been placed on management and leadership training with the introduction of the "Essentials of Leadership" development programme which has been well attended and equally well received.

Corporately, officer development is managed through the learning & development board and significant work is being undertaken on "*Priority Leadership Skills*" which is designed to equip senior managers with the necessary skills to meet the future aspirations of the Council.

For officers there are succession planning arrangements within departments and a Talent Management strategy will be introduced in 2011/12 to strengthen the corporate approach.

The induction programme for members was overhauled for the 2009 elections and there are now ongoing member briefings to ensure continuous development. Member induction has been significantly strengthened and there are also now member briefings which address generic development needs. A member's development group has also been developed looking at more focused development needs. The member development group continues to co-ordinate activity and is overseeing the County Council's application for charter status for member development. The assessment for this will take place on 3rd October 2012.

The revised Performance Management Framework will be integrated with workforce development initiatives, building capacity and securing the skills needed to drive transformational change within the County Council.

A Corporate Governance e-learning module was developed and launched in July 2010. The e-learning module is available to all County Council staff and forms part of the mandatory corporate induction programme.

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

The County Council undertakes a programme of consultation with residents, business and other key organisations on a wide range of issues. The findings are disseminated across the whole organisation, influencing policy and the decision-making process.

For both consultation and communications, the County Council draws on a number of strategies and documents:

- Hampshire Now publication
- Communications Strategy
- Best practice guidance
- Community Involvement Strategy
- E-consultation database

Public accountability is further enhanced by the system of publicly accessible scrutiny committees.

A wide range of documents are published to ensure that the County Council can be held to account:

- County Council and partnership strategies and plans
- Financial Statements and Accounts
- Select Committee reports

Annual reporting to the wider public via special articles being published in the Council's newsletter Hampshire Now.

5 Identify principal risks to achievement of objectives

5.1 The County Council has robust systems and processes in place for the identification and management of strategic and operational risk

The County Council has a comprehensive risk management framework in place, that includes partnership risks, with effective processes for reporting on risk. The County Councils risk management strategy was reviewed and updated in 2011.

A network of risk registers focusing on strategic and operational risk is in place, with regular reporting to senior management at both corporate and departmental levels. Business continuity arrangements are in place for all critical services, and tested.

Performance standards are used to improve the delivery and effectiveness of risk management. Through the Risk Management Board, chaired by the Deputy Chief Executive, risk management is embedded through the culture of the County Council so as to better influence decision making. Regular briefings on risk are made to the Executive Member with responsibility for risk management and regular reports have been made to the relevant scrutiny committees. The County Council has developed and uses a performance management framework that measures the maturity of its risk management arrangements. It provides assurance that:

- there is top down commitment to embedding and integrating risk management as routine business practice
- risk policies and strategies are communicated effectively and made to work through a framework of processes
- a core group of people have the skills & knowledge to manage risk effectively
- approaches for addressing risk with partners have been developed and implemented
- there is clear evidence that risk management is being effective and leading to the production of good results.

The County Council benchmarks the performance of its risk management arrangements with other public sector organisations.

The County Council largely self-insures against risk, subject to the availability of catastrophic insurance. There is good evidence that the management of claims within Legal Services is in accordance with the Civil Procedure Rules and that appropriate reserves are placed on claims. The claims management arrangements were subject to external audit in February 2012, receiving an excellence rating. Significant claims are regularly reviewed by the Monitoring Officer with the Head of Litigation. The budget for dealing with these claims, and the contributions to be made to that budget by Departments reflects the sums identified within the reserve figures placed on all claims. There is evidence of monitoring the

incidence of successful and unsuccessful claims and of feeding that information into the policy for risk financing accordingly. The system of self insurance is subject to internal audit, and review by external insurers.

As described above, guidance and the database of partnerships helps to identify and register risks in partnerships. Additionally, major corporate partnerships are included in the risk register.

Performance risks are identified and mitigated in line with the established corporate risk management framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the *Open for Business* Plan and an annual self-assessment, completed by departments.

6 Identify key controls to manage risk

6.1 The Authority has robust systems of internal control which includes systems and procedures to mitigate principal risks.

The financial management of the County Council is led by the County Treasurer, and is integrated with and influenced by the processes set out above. It includes processes for forward planning and expenditure, consultation on budget proposals, setting and monitoring income and budgets, and completion of final accounts. All are intended to be accurate, informative, timely and within statutory requirements.

The Cabinet and County Council approve the annual Treasury Management and Investment Strategy together with the midyear review and outturn report and external audit has confirmed compliance with the Prudential Code. The Audit Committee is responsible for challenging and scrutinising treasury management activity and practices.

Financial Regulations and Contract Standing Orders are regularly reviewed with the most recent changes to Financial Regulations having been completed in 2008. A further review of Financial Regulations is planned for 2012 and forms part of the action plan to this Statement. During 2009-10 a review of Standing Orders on Contracts, including reviewing the CIPFA contract procedure rules was undertaken by staff in Legal Services, County Treasurers and the Corporate Procurement network. This review along with The Corporate Services Review on Procurement and recent EU legislation and case law identified a number of issues that need to be addressed in revised Contract Standing Orders. Revised standing Orders were adopted by the County Council in 2010-11.

As indicated, there is a Reporting Concerns at Work (whistle-blowing) Policy and Anti-fraud and Corruption Policy embedded into the County Council and fully accessible on the County Council's website.

Registers of gifts and hospitality for both Members and Officers are maintained and the member's register is available for public inspection and on the County Council's web site. The Monitoring Officer will provide any

advice required on whether specific gifts or offers of hospitality should be accepted or politely declined. Any acceptance of hospitality by a member of staff must be subject to discussion and the agreement of that person's Line Manager. The processes in place for maintaining these Registers are monitored.

A revised Members Code of Conduct was adopted by the County Council in 2007 and signed up to by all Members. Training sessions on the new Code were offered by the Monitoring Officer to all Members including co-opted Members.

A high level scheme of delegation is contained within the Constitution, and this is supplemented within each Department whereby the Chief Officer authorises other senior Officers to carry out allocated functions on their behalf.

Revised Contract Standing Orders were adopted by the County Council in 2010-11. The County Council's current corporate procurement strategy (CPS) was formally approved by Cabinet in November 2009 following previous versions in 2006 and 2003. The CPS is currently under review and a further iteration is planned in 2012, subject to the implementation requirements of the current Corporate Services Review and of the work exploring potential collaboration between Hampshire Constabulary (HC), Hampshire Fire and Rescue Service (HFRS) and Hampshire County Council (HCC). An internal Best Practice Guide for procurement is maintained for staff and this year the County Council held its first internal conference for procurement staff. The conference in March was developed as part of the Council's plans to improve internal capacity and performance and is intended to be an annual event. On this occasion, the agenda featured best practice, an update on procurement regulations and a briefing on aspects of the 1998 Competition Act.

The Corporate Procurement team is directly involved in key corporate initiatives and maintains relevant information on policy and practice on both the County Council's internal and external websites at:

<http://intranet.hants.gov.uk/corporateprocurement.htm>
<http://www3.hants.gov.uk/procurement>

The actions associated with the CPS and the Procurement Improvement Programme (PIP) are reviewed with departmental representatives at regular meetings of the Corporate Procurement Network and PIP Steering Group. Progress on the corporate procurement agenda and key issues continue to be considered by Members on the Buildings, Land & Procurement Panel. Procurement staff across the County Council are actively engaged with the Licensed Procurement Practitioner (LPP) programme and have progressed towards completion of assessments set externally which will give individuals the *Award in Public Sector Procurement*. The County Council's LPP programme has been adopted by a neighbouring authority and will be rolled out to approximately 40 of their procurement staff.

The County Council continues to give significant support to collaborative procurement with local, regional and national partners (for example, on construction with a 'cluster' including Reading Borough Council and Surrey County Council and on commodity goods and services through the Central Buying Consortium, Pro5 and the Hampshire & Isle of Wight Procurement Partnership). The County Council's Chief Executive continues to influence the future of procurement across local government following roles as Chairman of the National Improvement & Efficiency Partnership for the Built Environment and as the national lead officer for the Procurement, Capital and Shared Assets Productivity work stream. Pro5 includes five of the major local authority purchasing consortia and is building its work plan in accordance with category management principles. Pro5 is collaborating with the Government Procurement Service on a number of contracts and the County Council's procurement team is making a direct contribution to this work.

Business continuity arrangements have been embedded into the County Council. Potential critical service areas have been identified and prioritised across the County Council's services against guideline criteria described in the Civil Contingencies Act 2004. Business impact analysis within the critical services has been undertaken and appropriate department and service plans developed as appropriate. A suite of business continuity plans consisting of corporate and incident management plans, together with template department incident and service recovery plans have been prepared and are stored within a robust system. A scheduled programme of testing is in place, including recovery arrangements for key IT systems. Corporate and Departmental risk registers include control measures, which are reviewed and monitored on a regular basis.

The Corporate Risk Register is reviewed and reassessed on a quarterly basis by the Risk Management Board. Departmental risks are subject to an annual reassessment.

The Corporate Health and Safety Policy is regularly reviewed and signed off by both the Leader and the Chief Executive. Partnership health and safety is covered by specific policy arrangement. The Corporate Health and Safety Policy is available electronically on the intranet and is supported by departmental policies and guidance. Audit programmes are in place across the County Council to review compliance against the policies and procedures. The Corporate Health and Safety policy and supporting policies are covered in health and safety induction and other relevant training courses. A suite of training course for health and safety is in place.

There have been no HSE interventions such as Prohibition or Improvement Notices or prosecutions since 2005.

The Risk and Safety Executive Group, the Risk Management Board and CMT receive reports on health and safety performance including incidents and positive indicators. The overall health and safety management performance is measured annually against standards defined by the HSE.

The County Council has an established Complaints Policy and Procedure which is reviewed on a quarterly basis. The procedure is compliant with all relevant statutory requirements, and details of the operation of the complaints regime can be found on the County Council's website. The County Council's leaflets and posters which highlight complaints procedures are published and available. All complaints files are kept in locked and secure cabinets with restricted access.

An annual report on the Complaints Policy and procedure is submitted to the Audit Committee.

As described above, guidance and the database of partnerships helps to identify and register risks in partnerships. Additionally, major corporate partnerships are included in the risk register. Performance risks are identified and mitigated in line with the established corporate risk management framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the County Council Business Plan and an annual self-assessment, to be completed by departments.

It is a management responsibility to develop and maintain the internal control framework, and to ensure that the County Council's resources are properly applied. Internal audit is an assurance function that primarily provides an independent and objective opinion to the County Council on the control environment by evaluating its effectiveness in achieving the County Council's objectives. Within the County Council, internal audit assists managers by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

The internal audit strategy and terms of reference for internal audit, approved by the Audit Committee, require the regular assessment and review of risks, controls and governance processes; and also the provision of an annual report and opinion from the Chief Internal Auditor. This is a key element of the assurance available to the Monitoring Officer in drafting the Annual Governance Statement.

In February 2012 a new shared internal audit service began with Southampton City Council. The Partnership provides for the delivery of an innovative and collaborative internal audit service, benefiting from strengthened resilience, efficient use of resources across both authority's and economies of scale in service delivery.

The Audit Committee reviewed the County Council's Whistle Blowing and Counter Fraud and Corruption policies at its meeting in December 2009, and the updated and revised procedures are now in place, set out on the website, and have been integrated into the e-learning on corporate governance. A further report was received by the Audit Committee in September 2011 outlining the County Council's actions to address the implementation of the Bribery Act 2010.

7 Obtain assurances on the effectiveness of key controls

7.1 Appropriate assurance statements are received from designated internal and external assurance providers

Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level and the Corporate Governance questionnaires retained by the Monitoring Officer as part of the assurance framework. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed. This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

External sources of assurance include the regular provision of inspection and assessment reports by the Audit Commission (as the designated external auditor), and statutory inspections of adults social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

8 Evaluate assurances and identify gaps in control/assurance

8.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.

The County 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 officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Monitoring Officer and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.

9 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance

- The Chief Internal Auditor and the Monitoring Officer will determine a central point of reference to key governance documents and proactively raise awareness about these documents across the County Council.
- The Implementation of the County Council's Procurement Improvement Programme is planned to continue in 2012/13. The Director of Culture, Communities and Business Services will lead implementation on behalf of the Corporate Management Team pending completion of the new corporate structure. Delivery of the current programme is managed by a corporate steering group, which includes the key corporate stakeholders.
- Ahead of the County Council elections in May 2013, a review of the Members Induction Programme will be undertaken by the Head of Member Services with the Monitoring Officer to identify any improvements in light of experience.
- An elections group comprising the Head of Member Services, the Monitoring Officer, the Head of Performance and Partnerships and the Head of Resources will be established to review the County Council's election procedures and protocols in advance of the 2013 County elections to identify any improvements in the light of experience.
- A new member's Conduct Advisory panel will be established to advise the County Council on revised Standards Arrangements as required in consequence of the Localism Act 2011
- A review of the suite of democratic protocols will be undertaken by the Head of Member Services and the Monitoring Officer during 2012-2013.
- The Review of the County Council's Talent management Strategy is now being included within the second stage of the Learning and Development review.
- A review of Financial Regulations by the County Treasurer will be undertaken during 2012-2013.
- As a result of the new freedom for councils to choose their own governance arrangements provided for in the Localism Act 2011 a review of the County Council's Governance arrangements will be undertaken during 2011-2012 with a view to making recommendations about revised governance arrangements for 2013-2014.
- A review of the Scheme of Delegation will be carried out by the Monitoring Officer in 2012-2013 as a matter of good governance and to ensure that any changes arising from the Corporate Services Review are fully covered.

- The process for obtaining the necessary assurances from Departments enabling the Annual Governance Statement to be produced will be reviewed by the Monitoring Officer, the Chief Internal Auditor and the Head of Performance and Partnership and potentially combined with the Departmental self assessment process.

10 There is a robust mechanism to ensure than an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored.

The Action Plan is kept under regular review by the Officer Corporate Governance Group. In response to the Action Plan identified in the 2009-2010 Annual Governance Statement;-

- A suite of key Governance policies, protocols and Codes of Practice have been compiled and reviewed as part of the County Council's self assessment against the requirements of the Bribery Act 2010. Work is now ongoing to determine clear ownership and a central point of reference for links to these documents to raise awareness and provide transparency and ease of reference to employees
- Implementation of the recommendations contained in the Council's Procurement Improvement Programme progressed well during 2011/12. Reports on progress and on procurement issues are made regularly to elected Members. Both implementation and reporting will continue in 2012/13. Priorities will be reviewed in the light of corporate developments around the leadership of strategic procurement and shared services, including procurement, with other public bodies in Hampshire. The findings of an Internal Audit of corporate procurement are also expected in 2012 and this review will provide additional focus on the existing procurement strategy, improvement program and corporate guidance
- The first part of the Corporate Review of Learning & Development has been completed and significant progress has been made in bringing greater co-ordination to L&D activities across departments and centrally. The second stage of the review will focus on the structural implications with the implementation of CSR and potential shared services with Hampshire Constabulary and Fire & Rescue service and the longer term development needs of staff given the unprecedented change taking place within the Council
- The County Council's Constitution was comprehensively reviewed and updated and the amended Constitution was adopted by the County Council in 2011

- A new Performance Management Framework for the County Council has been implemented. It provides a robust and coherent way of managing and improving services across the County Council, based on a cycle of continuous improvement.
- The Communications Strategy for the County Council has evolved during 2011-2012, with new systems in place to improve the quality of communications to Hampshire residents and County Council Staff

Declaration

We have been advised on the implications of the result of the review of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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:

Signed:

Date:
Chief Executive

Date:
Leader of the County Council