



**Hampshire**  
County Council

**ANNUAL GOVERNANCE STATEMENT  
2016/2017**

**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.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board. The combined Panel and Board is responsible for investment, management and governance of the Fund. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2016-2017.

## **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 2017 and up to the date of approval of the annual report and the statement of accounts.

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 at:

[Code of Corporate Governance](#)

### **3. Core Principles of good governance**

#### **3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

- 3.1.1 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.
- 3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during 2016-17. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.
- 3.1.3 An officer group comprising the Head of Governance and representatives from Democratic and Member Services, Legal Services and the Insight and Engagement Unit has been established to specifically monitor new legislation. The Legislation Implementation and Review Group meet quarterly, or as required, and provides an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.

#### **3.2 Ensuring openness and comprehensive stakeholder engagement.**

- 3.2.1 The County Council's Corporate Strategy – the *Shaping Hampshire Plan* - contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various departmental and partnership strategies and priorities.
- 3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that that the County Council takes decisions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.
- 3.2.3 Public consultation to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles

of consultation setting out when and how the County Council will consult the public.

- 3.2.4 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.
- 3.2.5 In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.
- 3.2.6 The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.
- 3.2.7 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners

### **3.3 Defining outcomes in terms of sustainable economic, social and environmental benefits.**

- 3.3.1 The strategic aims set out in the *Shaping Hampshire Plan* include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed departmental plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Management Framework.

### **3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.**

- 3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.
- 3.4.2 The Director of Corporate Resources advises the Pension Fund Panel and Board on all Pension Fund investment and administrative matters.
- 3.4.3 The Pension Fund's independent adviser, advises the Panel and Board on investment matters.
- 3.4.4 The Pension Fund Panel and Board uses the Fund's actuary and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as

required on allocating assets, selecting investment managers, and investment performance targets.

- 3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. A review group comprising the Head of Legal, Head of Finance, Corporate Equalities Lead and Assistant Chief Executive undertake periodic cumulative EIAs to understand the overall impact of service proposals on groups with characteristics protected under the Equalities Act (2010).
- 3.4.6 The budget setting process is well established and Departments prioritise budgets and spending in order to achieve intended outcomes. In recent years the budget setting process has inevitably focussed on the achievement of savings to meet reductions in Government grant funding but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.
- 3.4.7 A medium term financial strategy and three year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates.
- 3.4.8 Risks associated with the achievement of intended outcomes are detailed in Risk Registers held at Corporate, Department and project level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation.

### **3.5 Developing the entity's capacity including the capability of its leadership and the individuals within it**

- 3.5.1 The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Member on how to manage their relationships effectively.
- 3.5.2 The County Council has a well-established cross-party forum, the Member Development Group (MDG) that supports and oversees the development of Members in a number of ways, such as internal and external briefings and courses. This includes a well received monthly Briefing Programme together with ad hoc departmental briefings. The MDG is supported by the Head of Democratic & Member Services and the Commissioner for People in the Workforce Development Team. Work on the Member Induction Programme to support new and returning Members after the County Council's Elections in May 2017 commenced mid-year 2016 for which the MDG have been fully engaged throughout.

- 3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.
- 3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.
- 3.5.5 The County Council regularly reviews the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example; recruitment, retention and people development in order to provide effective leadership and deploy appropriate resources to meet the needs of services.
- 3.5.6 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals, following which regular reviews of performance, learning and progress takes place. Staff are held accountable for their own and their teams performance and are encouraged to use the range of learning opportunities that are available across the Council.
- 3.5.7 There is an emphasis on the need for high performance, of which resilience and continuous development play key parts, both of which factor in the regular discussions between managers and staff.

### **3.6 Managing risks and performance through robust internal control and strong public financial management.**

- 3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which 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 Shaping Hampshire Plan. The County Council's Annual Performance Report is published on the County Council's website and includes a summary of key areas of performance, including an analysis of any major performance risks and mitigations.
- 3.6.2 The County Council operates a robust Risk Management Strategy, with oversight of those arrangements provided by the Risk Management Board and reports to the Audit Committee.
- 3.6.3 A comprehensive Information Governance Framework is in place, overseen by the Risk Management Board, chaired by the Senior Information Risk Officer.
- 3.6.4 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources.
- 3.6.5 The Audit Plan 2016 – 17 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.

- 3.6.6 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.
- 3.6.7 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.
- 3.6.8 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.
- 3.6.9 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their attention.
- 3.6.10 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.
- 3.6.11 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. This function is resourced to ensure that Members are able to robustly challenge the Council's decision-making, have active engagement in policy review and development, and monitor the performance of the County Council as a whole.
- 3.6.12 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer or her representative.
- 3.6.13 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.
- 3.6.14 Financial management in key risk areas across the County Council focusses on activity and performance management alongside the budget management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Department, with a particular focus on the change management programmes that have been a feature of Departmental activity for many years.
- 3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.**

- 3.7.1 The decision making guidance, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior departmental officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.
- 3.7.2 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to CMT and Cabinet. Performance information is published online and is easily accessible to staff, partners and the public.
- 3.7.3 The 'Internal Audit Charter' is presented annually for approval by the Audit Committee. The Charter makes provision that 'Where it is considered necessary to the proper discharge of the 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 (i.e. the Audit Committee).'
- 3.7.4 The on-going work of internal audit is presented through a quarterly progress report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.
- 3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.
- 3.7.6 The internal audit plan includes provision to review the County Council's approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.
- 3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.
- 3.7.8 The County Council commissioned a consensual audit from the Information Commissioner's Office of its Information Governance and Data Protection arrangements, with a conclusion of "High Assurance". This has been reported to the Cabinet, with a further review by the Audit Committee.
- 3.7.9 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

#### **4 Obtain assurances on the effectiveness of key controls**

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

4.2 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. 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.

4.3 External sources of assurance include the annual opinion and value for money conclusion by external auditors, 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.

4.4 External sources of validation are being increasingly used to inform assessment of the organisations performance as a core part of the Corporate Performance Framework.

#### **5 Evaluate assurances and identify gaps in control/assurance**

5.1 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.

5.2 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.

5.3 The Head of Law and Governance 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.

- 5.4 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 self assessment assurance statement being sent every year to all Departments
  - consultation with other relevant officers throughout the County Council.
- 5.5 The assurance statements cover a range of Corporate Governance and performance issues and they refer to the existence, knowledge and application within departments of governance policies generally.
- 5.6 In line with the Internal Audit Charter approved by the Audit Committee in June, 2015 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.
- 5.7 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.
- 5.8 Departmental Corporate Governance assurance statements were sent out to Departments in 2016.

## **6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance**

- 6.1 Work will continue to establish the new *Serving Hampshire* Strategic Plan, and to finalise the revised Corporate Performance Framework. New systems for the collection and analysis of customer experience are being developed to support the ambition to place greater emphasis on customer feedback and external sources of validation. This work includes the development of methods to engage employees further and capture staff feedback.
- 6.2 A comprehensive induction programme will ensure that Members of the County Council are fully up to speed with the practicalities of being a member of the County Council, the operational activity of the County Council, The County Council's governance arrangements for decision making and its arrangements for maintaining high ethical standards.
- 6.3 As part of the County Council's digital project and analytics workstream, work is being undertaken to explore the potential to develop automated dashboard reporting for corporate performance indicators. This could help to improve the timeliness and transparency of performance reporting.
- 6.4 Following its first year of operation, the Customer Engagement Board Terms of Reference will be reviewed. A new Channel Design Authority will be established to govern changes to existing, and implementation of new, customer contact channels, and to support departments to put the customer at the heart of service redesign.

- 6.5 Internal Audit are currently compiling a Council wide 'assurance map' to ascertain all assurances received to mitigate controls in place to manage the organisation's key risks, The outcome of this work will be presented to the Audit Committee to inform the effective discharge of their duties.
- 6.6 The County Council will implement the agreed actions from the Information Commissioner's audit of the County Council's data protection arrangements and review those arrangements in preparation for the implementation of the General Data Protection Regulations in 2018.
- 6.7 The County Council is developing a Health and Wellbeing strategy, refreshing its People Development Priorities in order to focus attention on areas that will have the greatest impact for individuals and the service.

**7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored**

**In response to the Action Plan identified in the 2015-2016 Annual Governance Statement:-**

- 7.1 Work has been undertaken to develop a new Strategic Plan, to replace the current Corporate Strategy Shaping Hampshire which expires this year. The new Serving Hampshire Strategic Plan will cover the period 2017-2021.
- 7.2 The new Strategic Plan will be underpinned by a revised Performance Management Framework, providing the local governance structure for performance management and reporting to Cabinet. In June 2016, Cabinet took the decision to halt the annual self-assessment process, which formed part of the Corporate Performance Framework, in order to consider its ongoing effectiveness within the County Council's changing business environment.
- 7.3 In December 2016, Cabinet further agreed that the revised Framework should include a more extensive use of the outcomes of external assessments in judging the organisation's overall, annual performance and subsequent areas for improvement. Cabinet also agreed that a greater emphasis should be placed on customer feedback to evaluate the performance of services.
- 7.4 These combined sources of information will sit alongside the County Council's existing programme of internal audit and the annual equality and corporate governance statements, including staff feedback. Regular reporting against an agreed set of performance indicators will continue to be undertaken aligned to the priorities identified in the revised Strategic Plan.
- 7.5 Following the design of a new Customer Operating Model, new customer governance has been established. The Customer Engagement Board sets the strategic principles, priorities and governance around channel design and delivery for services.

- 7.6 Budget setting remains a key corporate activity involving all Departments and as part of last years Annual Governance Statement Improvement Plan, it was highlighted that the County Council needed to maintain a strong focus on the delivery of the Transformation to 2017 Programme at the same time as developing plans for Transformation to 2019 which seek to remove a further £140m from the budget.
- 7.7 This focus was effectively maintained during the year and led to the successful setting of the 2017/18 budget which included the £98m of savings necessary to balance the budget. The only area that did not achieve the savings in full was Adult Services, which had an agreed slippage of around £13m for which a separate action plan has been put in place.
- 7.8 Over the Winter Departments have also been developing their plans for the Transformation to 2019 Programme in readiness for a proposed public consultation exercise over the Summer, continuing the strategy of planning well ahead of time for the next round of savings and providing the time and capacity to implement them in a structured and planned way.
- 7.9 A further area for improvement was the governance and control framework for shared transactional services in order to minimise potential errors. A programme of work across a number of high risk areas was formally closed off at the end of 2016 with future improvement planning returned to business as usual. The impact of the programme has been significant, particularly in the area of payroll, where the number of processing errors has reduced significantly, together with increasing efficiency across the team.

## **Declaration**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit 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 set out in this Statement.

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:

Chief Executive

Leader of the Council

Date:

Date: