

South Oxfordshire District Council

ANNUAL GOVERNANCE STATEMENT 2007/08

1.0 Scope of responsibility

South Oxfordshire District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The council approved and adopted a local code of corporate governance in 2003, which is consistent with the CIPFA/SOLACE¹ framework (2001) Corporate Governance in Local Government – a Keystone for Community Governance: the Framework. The council has continued with this framework for the 2007/08 financial year because its governance monitoring framework is inextricably linked with its performance management framework.

This statement explains how South Oxfordshire District Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

With effect from April 2008, the council will implement the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (CIPFA 2007).

Our website at www.southoxon.gov.uk/ has a copy of the local code of corporate governance within its Constitution or it can be obtained from:

Democratic Services
South Oxfordshire District Council
Benson Lane
Crowmarsh Gifford
Oxon
OX10 8QS

¹ Chartered Institute of Public Finance and Accountancy and Society of Local Authority Chief Executives

2.0 The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The council has had the governance framework described below in place for the year ended 31 March 2008 and up to the date of approval of the statement of accounts.

3.0 The governance framework

The purpose of the governance framework is to do the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Full council is responsible for directing and controlling the organisation in this manner. Full council's responsibilities include agreeing the Constitution and key governance documents, the policy framework and key strategies including the community strategy and agreeing the budget.

South Oxfordshire District Council has executive arrangements in place consisting of a Cabinet and two scrutiny committees. Cabinet is responsible for proposing the policy framework and key strategies, proposing the budget and implementing the policy framework and key strategies. The scrutiny committees can question and challenge the policy and performance of the executive and promote public debate.

The chief executive advises councillors on policy and procedures to drive the aims and objectives of the authority. As head of the officer staff, the chief executive oversees the employment and conditions of staff. The chief executive leads the management team. The head of finance, the monitoring officer and senior managers are responsible for advising the executive and scrutiny committees on legislative, financial and other policy considerations to achieve South Oxfordshire District Council's objectives and are responsible for implementing councillors' decisions.

Our governance framework for 2007/08 was based on the Local Code 2003 which was adopted by full council on 17 April 2003. Within that framework we aimed to meet the principles of good governance in all aspects of the council's work giving particular attention to community focus, service delivery, structures and processes,

risk management and internal control and standards of conduct against which we set targets to monitor our performance.

The strategic planning framework

To ensure we do the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner, our strategic planning framework incorporates residents' and service-providers' views as well as national and local priorities. Our strategic planning framework incorporates the Local Strategic Partnership's sustainable communities strategy for the area. It also takes account of the priority indicators within the Local Area Agreement for Oxfordshire. In addition, we have responsibility for the local development framework – a set of planning policy documents that set out how we will use land in the district to achieve both our partners' and our wider objectives. During the year we have undertaken major consultation on our Corporate Plan. We also carry out regular consultation with residents and service-users to identify their priorities for service improvement and how satisfied they are with our services. Their feedback has helped to shape our strategic priorities and objectives.

Our overall vision is set out in our Statement of Strategic Intent. It complements that of the South Oxfordshire Partnership (SOP) and reflects our desire to work in partnership to achieve the best services possible for South Oxfordshire. Our Corporate Plan sets out the council's strategic objectives and corporate priorities. This plan along with Oxfordshire-wide plans, guides our decisions on how we invest our financial and staffing resources. They determine the types of projects we support through grant funding.

Our Corporate Plan sets out our strategic objectives and corporate priorities. Arising from the Corporate Plan each service team has a detailed service plan and workplan which identifies how they will undertake specific activities which will deliver our priorities.

Performance management framework

In order to know that we are achieving our objectives, we measure progress against Corporate Plan objectives and we also measure performance against service plan objectives.

The council's objectives are monitored via its performance management system. In the process of monitoring performance, we forecast year-end outcomes and undertake action planning to get measures back on track if they are below target. In addition, we review performance at the end of the year and use this to help set targets for the coming year. Where targets are not being met, heads of service discuss these on a monthly basis with their strategic director. Quarterly performance monitoring reports are presented to the Corporate Improvement Scrutiny Committee at which time Cabinet members and officers are expected to attend the committee to account for under-performing targets. Thereafter Cabinet receives the quarterly monitoring reports.

Our individual performance review scheme focuses on agreement of targets linked to service plans between managers and individuals. Throughout the year, staff have meetings with their managers to review progress and discuss and plan personal development in line with the council's objectives.

Legal framework

Our Constitution sets out how South Oxfordshire District Council is managed and guides decision-making towards objectives. The head of legal and democratic services is responsible for ensuring the lawfulness of decision-making and maintaining the Constitution. Our Constitution includes a set of procedure rules that govern how we conduct our business. It also includes protocols covering, for example, the disclosure of interests in contracts and the relationship between officers and councillors. In addition the Constitution contains a Planning Code of Conduct for councillors and a Code of Conduct for officers.

All decisions are made in accordance with the requirements of the Constitution and the scheme of delegation which forms part of the Constitution. The head of legal and democratic services will report to full council or to Cabinet if she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration.

In the role of monitoring officer, the head of legal and democratic services contributes to the promotion and maintenance of high standards of conduct through support to the Standards Committee.

The Constitution includes our Code of Conduct for councillors which came into effect from 1 July 2007. It incorporates the mandatory requirements of the Model Code of Conduct.

Financial framework

The financial management of the council is the responsibility of the head of finance (section 151 officer). The section 151 officer is responsible for the overall management of the financial affairs of the council. The section 151 officer determines all financial systems, procedures and supporting records of the council, after consultation with heads of service. Any new or amended financial systems, procedures or practices are agreed with the section 151 officer before implementation.

The full council is responsible for approving the following:

- MEDIUM TERM FINANCIAL STRATEGY

The medium term financial strategy sets a stable financial framework within which the council operates, and it is reviewed annually. It is linked to a medium term financial plan that is reported to councillors during the budget setting process.

- TREASURY MANAGEMENT STRATEGY

The treasury management strategy governs the operation of the council's treasury function, and is reviewed annually. This includes parameters for lending and borrowing, and identifies the risks of treasury activity.

- CAPITAL STRATEGY

The capital strategy governs the council's capital programme.

- REVENUE AND CAPITAL BUDGET SETTING

Both revenue and capital budgets are set by full council. Revenue budget setting includes both the calculation of the council tax base and the surplus or deficit arising from the collection fund.

Cabinet has overall responsibility for the implementation of the council's financial strategies and spending plans, and is authorised to make financial decisions subject to these being consistent with the budget and policy framework and the Constitution.

Heads of service are responsible for ensuring the proper maintenance of financial procedures and records, and the security of assets, property, records and data within their service area.

The chief executive, strategic directors and heads of service consult with the head of finance and the head of legal and democratic services on the financial and legal implications respectively, of any report that they are proposing to submit to the full council, a committee (or sub-committee), or Cabinet.

Risk management framework

Risk management is important to the successful delivery of our objectives. An effective risk management system identifies and assesses risks, decides on appropriate responses and provides assurance that the chosen responses are effective. Our risk management approach has been in effect since 2003. The overall responsibility for effective risk management in the council lies with the chief executive supported by the management team. We use a standard risk management methodology which encompasses the identification, analysis, prioritisation, management and monitoring of risks.

Councillors have a responsibility to understand the strategic risks that the council faces, and will be made aware of how these risks are being managed through regular reports to the Audit and Corporate Governance Committee.

All heads of service are responsible for ensuring that risk assessments are undertaken in their service areas, and that risks identified are prioritised and entered onto the risk register. This annual process has been mainstreamed and integrated with the annual service planning cycle, so that risk mitigation actions can be included in service plans.

The risk management group shares best practice and provides an arena for discussing and managing cross-service risks. Attendees of the group are known as risk champions and meet to monitor progress across the council.

All line managers are responsible for implementing strategies at team level by ensuring adequate communication, training and the assessment and monitoring of risks.

All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process.

4.0 Review of effectiveness of the governance framework

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

The following highlights our review of our strategic objectives and sets out the assurances of committees, officers and external organisations.

- **Review of objectives**

To ensure that we are doing the right things in the right way and for the right people, throughout 2007/08 South Oxfordshire District Council undertook a major review of the Corporate Plan. In doing this, the annual residents' survey asked customers to set out their priorities for improvement. In addition, workshops took place across the district when people were asked what they thought the council's priorities should be. Their feedback helped to guide the development of the Corporate Plan and shape the new strategic objectives and corporate priorities. We have agreed a new set of strategic objectives and 16 new corporate priorities which will provide a framework for the council's work over the next four years.

- **Legal framework**

The Constitution was reviewed twice during the year to ensure it is up to date. During the year, a review of the scheme of delegation was undertaken. In order to enhance the efficiency of decision-making within the budget and policy framework agreed by full council, more decision-making has been delegated to Cabinet members and officers.

The head of legal and democratic services did not need to use her statutory powers during the year.

In 2008 the Legal Services team was again awarded Lexcel. This accreditation is a quality mark which the Law Society has developed and which is only awarded to legal practices that undergo rigorous independent assessment each year to ensure

they meet the required standards of excellence in areas such as customer care, case management and risk management.

- **Standards Committee**

The council adopted a new code of conduct in 2007. Standards Committee members have actively participated in delivering training on the Code of Conduct to district and parish and town councillors as well as parish and town clerks. Between April 2007 and March 2008 there were no complaints made against district councillors. There was one hearing into an allegation of a breach of the code of conduct by a parish councillor. The parish councillor was found not to have failed to comply with the code of conduct.

In April 2008 the Standards Committee considered a further investigation into an allegation of a breach of the code of conduct against a parish councillor. The committee agreed with the investigator's findings that the parish councillor had not failed to comply with the code of conduct.

In addition, the committee has prepared for its role on the local filter of complaints under the code of conduct for councillors. The committee responded to the consultation on the local filter and it has appointed additional independent and parish representatives to the Standards Committee to enable it to fulfil its role in dealing with complaints.

The local filter of complaints will come into effect quickly and the committee will need to adopt procedures in order to enable the smooth-running of the complaints process.

Action: to effectively implement the local filter of complaints the Standards Committee will develop procedures for considering complaints under the councillors' code of conduct and will provide guidelines for Standards Committee members and the public.

- **Financial framework**

During the 2007/08 financial year, full council reviewed and approved the medium term financial strategy, and the treasury management strategy. It was not possible for a review of the capital strategy to be undertaken. This is programmed for 2008/09.

Action: undertake a review of the capital strategy during 2008/09.

Full council approved a revenue budget for 2008/09, together with a capital programme until 2011/12. This was set following rigorous internal review by Cabinet members, the chief executive, strategic directors and heads of service, together with the section 151 officer and accountancy staff. Budget proposals were also subject to review by the Corporate Improvement Scrutiny Committee. The council tax itself was set in accordance with parameters defined in the medium term financial strategy.

Regular budget monitoring was undertaken throughout the financial year, with budget monitoring reports sent to senior managers and Cabinet members every month from July onwards, and published for all councillors twice in the year. However, for the new financial year it has been agreed that budget monitoring information will be formally reported quarterly to Cabinet.

A new financial management system – Agresso – became operational in April 2007. A number of operational issues with the system during the financial year have, as can be seen under the internal audit section below, caused many of the key financial systems reviews to come back with a limited opinion. The problems experienced with the system were reported to Audit and Corporate Governance Committee during the year, as was progress against a recovery plan which was agreed with the contractor.

Action: review the areas of limited assurance identified by internal audit with the contractor to ensure that the concerns raised by internal audit are addressed.

- **Internal audit and the internal audit manager**

Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the council's objectives. It assists the council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.

The internal audit manager contributes to the assurance process by commenting on the effectiveness and outcome of the programme of internal audits and comments on the effectiveness of the internal control environment of the council. During the year internal audit harmonised its services with Vale of White Horse District Council.

The internal audit manager's overall opinion offers satisfactory assurance on the basis of its own work. There is basically a sound system of internal control in place, but there are some weaknesses which may put some system objectives at risk. Areas of concern in the control environment mainly centre on key financial systems. The implementation of the Agresso 5.5 financial management system, resulted in control weaknesses being identified in the majority of the key financial system audits which require remedial action.

During the year the internal audit manager also undertook a risk management audit, and a limited assurance rating was given. The council has implemented some risk management processes, but it is the internal audit manager's opinion that improvements need to be made to fully embed an adequate risk management process. This is considered further under the heading of *risk management*.

Internal Audit did not complete specific reviews of corporate governance arrangements and the Anti-Fraud and Corruption Policy and Response Plan in the year and has included these in the plan for 2008/2009.

Internal audit offers assurance that it has complied with the CIPFA Code and a formal quality assurance programme was introduced during the year. Internal audit needs to complete a self-assessment against the code to identify areas for further improvement, from which an action plan will be developed and results will be presented to the Audit and Corporate Governance Committee.

Action: to undertake an internal audit self-assessment against the code to identify areas for further improvement.

- **Risk management**

An internal audit of risk management provided limited assurance on the adequacy of the internal control system, which puts the system objectives at risk, and/or the level of non-compliance puts some objectives at risk. The audit raised 14 recommendations; seven high, five medium and two low. In summary, the audit recommended that the council should review its strategic risks; greater emphasis should be given to the reporting of risk; risk management should be incorporated into training and induction for officers and councilors and that performance monitoring and management reporting needs to be strengthened.

Action: address the actions of the internal audit report as presented to the Audit and Corporate Governance Committee on 30 June 2008.

Governance code

In 2007, CIPFA/SOLACE published a revised code of governance. The revised code is intended to be used as best practice for developing and maintaining a locally adopted code of governance. South Oxfordshire District Council chose to adopt this revised code from 1 April 2008 rather than on publication of the revised code. As our governance monitoring is linked with our annual performance targets and measures and we were already more than one quarter into the year we opted to remain with the existing governance arrangements rather than bring in new performance measures part way through the year.

During 2008/09 South Oxfordshire District Council will need to review the revised local code of governance to ensure that best practice governance is aimed for and appropriate performance measures are in place.

Action: devise performance measures against the new local code of governance.

Audit and Corporate Governance Committee

The committee of 13 councillors was formed after elections in 2007. It consisted of a number of councillors new to the role of the committee. With that in mind, an external trainer provided a training session on “the effective audit committee”. During the year, the committee adopted a new local code of governance (to become effective from 1 April 2008), received internal audit reports, considered the ombudsman’s letter, a report on risk and challenged financial management issues within South Oxfordshire District Council.

Having been unable to arrange a suitable training date for councillors on the key areas of risk, internal audit, external audit and governance, the intention is to invite councillors to a training session in June 2008. This will follow appointment of councillors to the Audit and Corporate Governance Committee which will consist of a reduced number of seven councillors with effect from May 2008. As part of the Annual Audit and Inspection Letter, the Audit Commission made recommendations as set out as the action below:

Actions: to

- work with councillors on the committee to develop their understanding of roles and responsibilities and how they can contribute to monitoring and improving governance, risk management and internal control
- enable the committee to deliver robust challenge on governance and internal control
- develop councillors' understanding of the sources of assurance supporting the governance statements.

Corporate Improvement Scrutiny Committee and Customer and Community Scrutiny Committee

The scrutiny committees help develop council policy and review performance in meeting council objectives. During the year, a number of new initiatives have been embarked upon by the chairmen to help improve the effectiveness of the committees.

Alongside the new initiatives, a task group of councillors on the scrutiny committees has been meeting to prepare its report on the review of the effectiveness of the two committees. The report will be published in the summer of 2008 and the outcomes will be translated into action plans to improve the effectiveness of the committees.

Action: implement an action plan to improve the effectiveness of the scrutiny committees following publication of the report on the review of scrutiny.

External sources of assurance on the governance framework

- AUDIT COMMISSION: COMPREHENSIVE PERFORMANCE ASSESSMENT (CPA)

In line with our aims we achieved an *excellent* rating in the Audit Commission's CPA reassessment in 2007.

The Audit Commission's CPA and inspection activity underpins the principle of targeting work where it has the greatest effect based upon assessments of risk and performance. The assessment stated that the council is delivering on its ambitions and achieving good quality service delivery in most priority areas.

CPA was positive about the robustness of the council's plans, the performance management frameworks that underpin them and its approach to project management.

CPA found that the council has good capacity to deliver its ambitions, that managerial and political leadership is strong, staff are well managed and focused on delivery, and there is a robust approach to workforce planning, recruitment and development. The council enhances its capacity through innovative commissioning and effective management of partnerships and this is supported by strong financial management and capacity.

As a result of the Audit Commission's assessment, the Corporate Improvement Scrutiny Committee considered an improvement plan. While the actions are not considered high priority, the committee will continue to monitor progress against the action plan to deliver the improvements.

- AUDIT COMMISSION: ANNUAL AUDIT AND INSPECTION

The Audit Commission's key message is that the council continues to perform well. The council continues to deliver good services compared with other councils and overall satisfaction with the council and its services is amongst the best 25 per cent nationally.

Its partnership working was identified as a strength and its partnership with Vale of White Horse District Council is highlighted as an innovative approach to providing shared services which is already delivering improvements. However, problems with the implementation of the revised contract with the private provider have led to a dip in performance and internal control which is being addressed by an action plan.

The Audit Commission's assessment stated that the council manages its resources well with a strong sense of value for money. Its costs are low compared with other councils.

- AUDIT COMMISSION: AUDIT ANNUAL GOVERNANCE REPORT/VALUE FOR MONEY CONCLUSION

The Audit Commission gave an unqualified opinion on the financial statements on 10 October 2007, after the due date of 30 September. This was largely because of difficulties in completing the audit of the financial statements this year. This was partly due to the change in format of the statements and the need to restate prior year balances, but also due to the processes operated within the finance department to prepare and review the statements.

The Audit Commission gave an unqualified value for money conclusion on the arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission recommended that "in the light of the extent of the adjustments to the statements, we recommend that members review the processes proposed for preparation and review of the statements for 2007/08". Consequently a restructuring of the accountancy team has taken place to allow joint working with Vale of White Horse District Council resulting in a larger and therefore more robust and resilient structure. There are no ongoing actions in relation to this recommendation.

- LOCAL GOVERNMENT OMBUDSMAN

The Local Government Ombudsman provides summary information on complaints about South Oxfordshire District Council to enable the council to incorporate any feedback into service improvement.

The Ombudsman's letter showed that the number of premature complaints had increased but remained below the national average. The ombudsman stated that the council advertises its complaints procedure clearly and explains each stage of the complaints process.

5.0 Significant governance issues

We propose over the coming year to take steps to address the matters set out in the action boxes above 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: Leader of the Council

Chief Executive

Date: