

REPORT OF THE DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR RESOURCES

ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2010/11 AND PROCESS FOR PRODUCING 2011/12 STATEMENT**1 PURPOSE OF THE REPORT**

This report sets out the current position in respect of those issues reported in the 2010/11 Annual Governance Statement (AGS), and the process for compiling the 2011/12 AGS.

2 RECOMMENDATIONS

That the Committee notes the progress made to date in addressing the issues reported in the 2010/11 AGS, as detailed in **Appendix 1**, the process for compiling and timetable for completion of the 2010/11 AGS, as detailed in **Appendix 2**.

3 REASONS FOR CONSIDERATION

- 3.1 The City Council's governance arrangements aim to ensure that objectives and responsibilities are set out and met in a timely, open, inclusive, and honest manner. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.
- 3.2 The publication of an AGS is required by the Accounts & Audit Regulations 2003 (amended 2006). The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare a statement in accordance with proper practices. The 2007 CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" provides the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting of 20 May 2008.
- 3.3 Included in this Committee's terms of reference is the core function that it should be "satisfied that the Authority's assurance statements, including the AGS, properly reflect the risk environment and any actions required to improve it."
- 3.4 In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken in time to deliver it alongside the Council's Statement of Accounts. The timetable (**Appendix 2**) will be used to monitor the progress of the AGS.
- 3.5 The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2010/11 on 23 September 2011. It was signed by the Leader of the Council, the Chief Executive and the Deputy Chief Executive (CFO) and was published alongside the Statement of Accounts.

3.6 The AGS reflects the governance framework operating within the Council and its significant partnerships. The issues identified in the AGS and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.

3.7 Part of the 2010/11 AGS reported on significant control issues affecting the Council and the action plans put in place to address them. In ascertaining the significance of the control issues, CIPFA defines a series of factors to be considered, as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
- The issue has led to a material impact on the accounts.
- The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

3.8 The 2010/11 AGS also reported on issues of note which do not merit categorising as significant but require attention and monitoring to maintain and improve the system of internal control. As with significant issues these may have been brought forward from previous statements if the issues have not been finally resolved.

4 OVERVIEW OF WORK UNDERTAKEN

Update of Issues Reported

4.1 Issues identified in the AGS have been revisited and an update of the latest position established. Issues not resolved are shown at **Appendix 1**.

4.2 The progress on outstanding issues is summarised below.

4.2.2 Single Status

The majority of grading grievances from phases one and two have now been resolved and changes to casual workers' pay have been implemented. The focus is now on implementation for non-teaching school based colleagues (phase three), which is planned for spring 2013, subject to ACOS approval.

4.2.3 Balancing the Council's Budget

Savings and the redistribution of financial resources to priority areas were identified through the 2011 budget process and have been closely monitored. A similar approach has been adopted in developing the 2012/13 budget and the MTFP will be reviewed to reassess pressures in future years as part of this process. The draft MTFP reflects the culmination of the extensive work of councillors, colleagues and

other stakeholders to fulfil a legal obligation to enable the setting of a balanced budget for 2012/13 in the context of a three year MTFP to fund provision of a wide range of services; many of them statutory. Resources have been redirected by

- Identifying cost reductions – arising from both efficiencies and policy issues;
- Reviewing priorities and services and restructuring accordingly;
- Optimising external funding;
- Reviewing income streams;
- Implementing new ways of working and providing services

Nottingham currently operates on a three year rolling MTFP but takes a slightly longer term perspective in horizon scanning. The outlook for local government is now much more challenging in the light of global, national and regional issues. In examining proposals for the 2012/13 budget, the Council considers both the immediate situation and the longer term outlook. This confirms the need for the need for ongoing cost reductions in the short to medium term.

A balanced budget for 2012/13 was approved by Executive Board in February 2012 and will be debated at Council in March 2012.

4.2.4 International Financial Reporting Standards

The changes required for IFRS were successfully introduced for the 2010/11 Statement of Accounts. In the Audit Commission's Annual Report they noted that:

"The Council responded well to the challenge of producing financial statements meeting IFRS requirements for the first time this year. This is a significant achievement given that the Council's financial statements are complex and as many authorities struggled to implement IFRS in a timely manner".

The Corporate Accounting team is now embedding and improving the process used for producing the 2011/12 Statement of Accounts and there is close liaison with Human Resources and Property Services to ensure information is available in good time for producing the accounts.

The introduction of IFRS has increased the complexity of the Statement of Accounts, making them more difficult for non-financial people to understand. To help improve this situation the Corporate Accounting team is also looking to restructure the Statement of Accounts, provide additional information and an executive summary to help readers interpret the accounts.

4.2.5 Children in Care

A plan is in place to continue to reduce the numbers over the coming year and includes the systematic use of tools to help return young people to their families. Work is underway to match children and young people at an earlier point in the adoption process. Work was undertaken in 2011 to realign the children in care placements budget, resulting in some net savings on placement costs.

4.2.6 Housing and Council Tax Subsidy Claim

The Housing Benefit and Council Tax Benefit 2008/09 have been settled, with the agreed reduction of £0.409m being reflected in the final statement.

4.2.7 Accounts Payable

Following a detailed review of the procurement process, an improvement plan has been implemented with the objective of improving efficiency, streamlining processes and thereby deliver anticipated savings. Significant progress has been achieved and current statistics show that the Accounts Payable team's performance is within the top quartile when compared with similar local authorities. Processing difficulties, which damaged performance during the first stage of the redesign of this service, have been resolved through a greater emphasis on quality and communication. Current performance for invoices where an order would be required is 91% and current performance for payments made on time has risen to 87%.

4.2.8 Central Government Review of Local Government Funding

The financial settlement for 2011/12 and 2012/13 resulted in a reduction in funding for Nottingham close to that predicted. The Government intends the local government funding system to be fundamentally reformed for 2013/14 onwards, the details of which are not yet published. The City Council has responded to consultation documents highlighting concerns that a disproportionate share of the financial risk is being passed to local authorities and that the mechanisms create a questionable link between growth in businesses in an area and the need to fund demand led services such as social care.

4.2.9 Icelandic Banks

The City Council worked with other local authorities, under the co-ordination of the Local Government Association, and the Icelandic Supreme Court found in favour of UK local authorities and other wholesale depositors, meaning that they will be paid first when it comes to getting their money back. They will recover almost all of the money they had deposited. The following table details the proportion of these Council's funds that have been returned to date:

Bank	% return
Heritable	68
Landsbanki	29
Glitnir	0

Process for the Production of the AGS 2011/12

4.3 It is intended that the production of the AGS 2011/12 will closely follow the processes adopted for the AGS 2010/11, previously noted by this committee. The associated timetable is given at **Appendix 2**. The process will be managed by the Corporate Governance Steering Group (CGSG) as endorsed by the Executive Board on 20 May 2008 and which consists of senior colleagues representing Council services. A set of assurances will be obtained from the Leader of the Council, key colleagues including corporate directors, individuals with statutory roles, significant groups and significant partnerships.

- 4.4 The assurance will come from a self assessment based on customised questionnaires targeted at the appropriate assurance givers, together with information provided in support of the 2010/11 AGS. The questionnaires will be based on the Council's Code of Corporate Governance. Support throughout the process will be given by Internal Audit and the Head of Internal Audit will visit all departmental management teams to discuss audit plans and introduce the 2011/12 AGS.
- 4.5 The questionnaires will also be supported by a comprehensive guidance document provided by Internal Audit. Completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and external assurance providers, Council, Board and committee minutes, and the annual review of governance arrangements in significant partnerships.
- 4.6 A comprehensive account of the Council's governance arrangements will be produced in a format addressing the principle embodied in its Local Code of Corporate Governance and will include the failings identified and plans put in place to address them. This will be discussed by members of the CGSG and will be presented to the Audit Committee for approval, and the document when approved will be published with the City Council's Statement of Accounts.

5 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

6 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Annual Governance Statement 2010/11
Accounts & Audit Regulations 2003 (amended 2006)
CIPFA/SOLACE - Delivering Good Governance in Local Government Framework
Executive Board 20 May 2008 - Local Code of Corporate Governance
Audit Committee 23 Sept 2011 - AGS 2010/11
Nottingham City Council - Statement of Accounts 2010/11

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Annual Governance Statement 2010/11 – February 2011 Update of Position

ISSUES WORTHY OF NOTING

Single Status

As part of Central Government's Single Status initiative to deal with equal pay issues, a major change in the remuneration structure for staff is in progress. There is a prospect of potential disruption and legal challenge to the decisions made to implement the new pay structure (grading appeals and backdating of awards).

Updated Position at February 2012

The majority of grading grievances resulting from phase one and two implementation have now been resolved and Single Status changes to casual workers' pay were implemented in November 2011 with no significant issues. Focus is now on implementation of Single Status for non-teaching school based colleagues (now known as phase 3).

The position remains unchanged in relation to this group, in that there are some particular equal pay challenges around some of the school based terms and conditions (most notably relating to teaching assistants). Proposals have been developed with a view to addressing these issues whilst mitigating the impact on employees where possible. Consultation with trade unions has taken place and these proposals are awaiting final sign off by the Council's Appointments and Conditions of Service Committee (ACOS). Implementation for this group of staff is now planned for spring 2013, subject to ACOS approval.

Balancing the Council's Budget

The combination of the impact of the global recession and the need for a significant investment in some services placed severe pressure on the Council's financial resources. The 2009 budget process, through the in depth analysis of spending requirements and the opportunities to generate income, highlighted the need to reduce net expenditure across the City Council.

Updated Position at February 2012

Savings and the redistribution of financial resources to priority areas were again identified through the 2011 budget process and have been monitored closely through the Council's financial reporting procedures. The overall level of the Council's spending is being managed through the Corporate Leadership Team and the Executive Board.

The regular monitoring of budgets by Corporate Directors is reported quarterly to Executive Board and the Performance and Resources Standing Panel and is

particularly important in highlighting areas of budget pressures, as early as possible in the process, to enable management action to take place. The City Council recognises the importance of individual and collective accountability and requires managers to formally sign up to acknowledge they recognise their responsibilities to deliver services on time, to the required standard and within budget, and to implement any savings and investment allocated to their areas. In recognition that financial management is an integral aspect of effective leadership and good management, relevant councillors and managers are required to participate fully in all aspects of financial processes

A similarly robust approach has been adopted in the development of the 2012/13 detailed budget. A number of in-year pressures have been identified in demand led services and these are consistent with the risks identified as part of the budget process. Appropriate management action is being taken to manage expenditure within Resources. The MTFP will be being reviewed to reassess pressures in future years as part of the 2013/14 budget process.

The Council's regard is to have financial stability and ensure that our financial pressures are known, understood and well managed. The CFO advises on this using the principles within the MTFP, best practice and professional experience. A corporate financial risk assessment has been undertaken to determine key risks and their impact on the budget. This ensures that adequate overall corporate budgetary provision is available to cover for unforeseen future events. This approach is embedded within the budget process and is used to inform the level of reserves required

International Financial Reporting Standards (IFRS)

The introduction of IFRS within local government for accounting periods from 1 April 2010 will require the redesign of certain accounting statements and the adoption of new accounting and management processes in certain areas. This will most significantly affect record keeping within Property Services and Human Resources, as well as the accountancy functions.

Updated Position at February 2012

The changes required for IFRS were successfully introduced for the 2010/11 statement of accounts. The Audit Commission's Annual Governance Report stated that "the Council responded well to the challenge of producing statements under International Financial Reporting Standards requirements". The Corporate Accounting team are now embedding and improving upon the processes used for producing the 2011/12 Statement of Accounts, including an improved detailed timetable, additional control checks and improved working papers. Close liaison with Human Resources and Property Services is continuing, to ensure information is available in a timely manner for completion of the 2011/12 accounts. Further training from CIPFA has ensured that the team is up to date with new developments and the team is working closely with the Audit Commission to improve the presentation of the accounts as well as the audit process and issues arising out of the audit of the 2010/11 Statement of Accounts

Children in Care

Children in Care arrangements and associated budget pressures are key issues facing the service. There is a need to recruit and retain social workers to maintain stable safeguarding arrangements. Nottingham has seen, as in other areas across the country, a significant increase in the number of children in care over the past year.

Updated Position at February 2012

A plan is in place to continue to reduce the numbers over the forthcoming year. Part of this work involves systematic use of tools to help return young people to their families; having detailed exit plans for each young person, benchmarking all statistics is against our statistical neighbours and ensuring a full compliment of staff to deliver the business. Work is underway to match children and young people at an earlier point in the adoption process to ensure a stable and permanent family home for all our children in care. Work was undertaken in 2011 to realign the children in care placements budget and ensure that the use of a regional framework for all care registered and 16 plus accommodation was robust. This has resulted in some net savings on placement costs.

Housing and Council Tax Subsidy Claim

The housing benefit and council tax benefit subsidy claim 2008/09 was qualified by the Audit Commission. Their qualification letter extrapolated financial errors found in the claim to calculate that there was potential for the subsidy claim to be overstated by £2.1m. The DWP wrote to the City Council requiring a response to the qualification letter.

Updated Position at February 2012

The Housing Benefit and Council Tax Benefit 2008/09 claim has been settled. The agreed reduction in the claim of £0.409m was reflected in the final settlement.

Accounts Payable

The centralisation of the AP function took place in August 2009. This was undertaken to release savings of £0.3m, to introduce more modern working practices and to ensure greater financial control. However, there were significant problems in the first three months of implementation, involving processes and resources, which created a significant backlog in the payment of invoices.

Updated Position at February 2012

Following a detailed review of the whole procurement process, an improvement programme was been designed and scheduled for the period May to August 2011. The objective was to provide significant benefits, obtained through clearer standardisation of process, clearer understanding of roles and responsibilities and a closer adherence to corporate requirements.

Significant progress was achieved during the period of the improvement plan, mainly through allowing experienced colleagues to review, correct and standardise AP processes, and this progress has continued. Current statistics show that the team's performance is within the top quartile when compared with similar local authorities. There has also been a striking improvement in the relationships between the AP team and other colleagues, achieved through better communication, and this has had an additional beneficial effect on performance.

As the service prepares for the introduction of East Midlands Shared Services (EMSS) with Leicestershire County Council the improvement plans now in place are delivering the processes and performance levels required for this transition. For example, current performance, for invoices where an order would be required, is 91%. The year-end target for payments made on time remains at 90%, while current performance has risen to 87%.

Central Government Review of Local Government Funding

As the new coalition Government has undertaken a fundamental review of public spending which has reduced the level of funding available to the Council from 2010/11 onwards.

Updated Position at February 2012

The financial settlement for 2011/12 and 2012/13 has been based on a limited review of the funding formula and this has then been overlaid with a crude 'floors' mechanism, designed to limit the overall impact within different classes of local authority. The consequent reduction in funding for Nottingham was close to that predicted and detailed preparations had already been made to deliver the level of savings that this reduction requires.

The Government's intention is for the local government funding system to be fundamentally reformed for 2013/14 onwards. Colleagues within finance and policy are working to identify how the details of this review may be influenced and contacts are already being made directly with DCLG, through the Core Cities group and CIPFA.

This approach and the intelligence it provides will be kept under constant review during the financial planning process in order to ensure that the financial forecasts applied are accurate, both in terms of value and timing.

SIGNIFICANT ISSUES REPORTED

Icelandic Banks

In October 2008, as a consequence of the global financial crisis, the Icelandic banking system collapsed, with four of its banks going into administration. This impacted directly on the Council, which had a total of £41.6m deposited with three of the banks involved, at the time of the collapse.

A review of the Treasury Management Strategy was immediately undertaken. As a consequence of this review, the strategy was amended in respect of future investments to: reduce the number of eligible investment counterparties: reduce the maximum period of investments: and reduce the maximum sum placed with individual counterparties. The new strategies were implemented with immediate effect, and were subsequently approved by Executive Board in November 2008 and January 2009.

Updated Position at February 2012

The City Council worked with other local authorities, under the coordination of the Local Government association, to progress the recovery of the amounts deposited through the Icelandic courts. The Icelandic Supreme Court has found in favour of UK local authorities and other UK wholesale depositors and this judgment means that the City Council's claims, along with those of the other local authorities and wholesale depositors, have been recognised as deposits with priority status over other creditors' claims. This means they will be paid first when it comes to getting their money back and will recover almost all of the money they had on deposit with the failed Icelandic banks.

The way in which the LGA and our legal advisors have co-ordinated the legal action with other local authorities has minimised legal costs whilst enabling us to advance the strongest possible arguments to secure this result.

