

REPORT OF THE DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR OF RESOURCES

ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2011/12 AND PROCESS FOR PRODUCING 2012/13 STATEMENT

1 PURPOSE OF THE REPORT

This report sets out the current position in respect of those issues reported in the 2011/12 Annual Governance Statement (AGS), and the process for compiling the 2012/13 AGS.

2 RECOMMENDATIONS

To note the progress made to date in addressing the issues reported in the 2011/12 AGS, as detailed in **Appendix 1**, and the process and timetable for compiling and completing the 2012/13 AGS, as detailed in **Appendix 2**.

3 REASONS FOR CONSIDERATION

- 3.1 The 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 it 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 2011. 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 (updated 2012) publication "Delivering Good Governance in Local Government Framework" provided 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 2011/12 on 21 September 2012. It was signed by the Leader of the Council, the Chair of the Audit Committee, the Acting Chief Executive and the Acting 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 and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.
- 3.7 Part of the 2011/12 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 2011/12 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**.

4.1.2 Single Status

Work to implement Single Status in schools is ongoing and implementation is on track for 1 May 2013.

Those colleagues who “agree to vary”, are eligible to receive an incentive payment subject to them signing a compromise agreement. The majority of colleagues (over 80% to date) have agreed to the changes and many are attending compromise

agreement signing events. Those colleagues who have not agreed to vary so far are currently attending individual consultation meetings where they are being consulted on their potential dismissal. Should they continue not to agree to the changes, they will be put through a process of dismissal and re-employment with notice and offers of re-employment being issued in early February 2013.

4.1.3 Balancing the Council's Budget

The MTFP has been reviewed to reassess pressures in future years as part of this process Resources have been redirected by Identifying cost reductions arising from both efficiencies and policy issues including:-

- Reviewing priorities and services and restructuring accordingly;
- Optimising external funding;
- Reviewing income streams;
- Implementing new ways of working and providing services

4.1.4 Children in Care

A plan is in place to continue to reduce the numbers over the forthcoming year. 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. The renewed focus is the subject of a Big Ticket Project regarding reducing the numbers of children in care and speeding up the adoption process by tackling delay. There is strong collaboration between partners in Nottingham city, most notably between Health, LA, Police, Foster Carers and providers of residential accommodation. Performance against children in care targets in many areas continues to be strong and NCC largely out performs against its statistical neighbours.

4.1.5 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 delivering 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..

4.1.6 Central Government Review of Local Government Funding

The Council 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.

4.1.7 Icelandic Banks

Since the banks went into administration in 2008, the Council has received a series of dividends from the administrators of the individual banks. The final sum to be received is dependant on a number of factors including the exchange rate applied. The steps taken to review the Council's processes in the wake of the banking crisis have provided a robust and transparent methodology with which to manage the

Council's investments. This has proved to be an effective approach during the ongoing difficulties being experienced within the financial markets.

Process for the Production of the AGS 2012/13

- 4.2 It is intended that the production of the AGS 2012/13 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.
- 4.3 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 2011/12 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 2012/13 AGS.
- 4.4 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.
- 4.5 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 2011/12

Accounts & Audit Regulations 2011

CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2007

CIPFA/SOLACE - Delivering Good Governance in Local Government Guidance Note, 2012

Executive Board 20 May 2008 - Local Code of Corporate Governance

Audit Committee 21 Sept 2012 - AGS 2011/12

Nottingham City Council - Statement of Accounts 2011/12

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Annual Governance Statement 2011/12 – March 2013 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 schools-based support staff is in progress. "Single Status", a new harmonised set of terms and conditions and pay and grade structure, was introduced for the majority of centrally based employees in November 2010 and the current exercise is designed to bring schools staff in line with this. There is a prospect of potential disruption and legal challenge to the decisions made to implement the new pay structure in schools (grading appeals and backdating of awards).

Updated Position

Work to implement Single Status in schools is ongoing and implementation is on track for 1 May 2013.

Colleagues are currently being put through the implementation process which has meant asking them to agree to the changes to their terms and conditions on an individual basis. Those colleagues who "agree to vary", are eligible to receive an incentive payment subject to them signing a compromise agreement. The majority of colleagues (over 80% to date) have agreed to the changes and many are attending compromise agreement signing events.

Those colleagues who have not agreed to vary so far are currently attending individual consultation meetings where they are being consulted on their potential dismissal. Should they continue not to agree to the changes, they will be put through a process of dismissal and re-employment with notice and offers of re-employment being issued in early February 2013.

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

The Medium Term Financial Plan has been reviewed to reassess pressures in future years as part of this process and 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. 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

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 two years.

Updated Position

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 birth families, having detailed exit plans for each young person, benchmarking all data against our statistical neighbours and ensuring a full complement 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. The renewed focus is the subject of a Big Ticket Project regarding reducing the numbers of children in care and speeding up the adoption process by tackling delay. Work in 2012 was undertaken to realign the children in care placements budget and ensuring that the use of a regional framework for all care registered and 16+ accommodation was robust. This has resulted in some continued net savings on placement costs. Performance against placement stability and recording the wishes and feelings of children and young people continues to be strong.

There is strong collaboration between partners in Nottingham city, most notably between Health, LA, Police, Foster Carers and providers of residential accommodation. The Council has just moved to a position of having created a 'permanence team' which is the Children in Care Social Work Service. This became operational in April 2012. Further resources have been agreed to support the effectiveness and implementation of the National Minimum Standards across Fostering, Adoption and the Residential Children's estate. This is central to the strategy of ensuring better outcomes for our children in care population.

Performance against children in care targets in many areas continues to be strong and NCC largely out performs against its statistical neighbours. Areas for growth and development against key performance targets are in ensuring the health of children in care is robustly monitored and action taken where appropriate. Speeding up adoptions and tackling delay is the second area that requires some development. Statistically NCC does better than its neighbours (with the exception of Middlesbrough) in the recently published adoption scorecard.

Priorities and Risk for 2013/14

Risk: Implementation of Welfare Reform from April 2012. Recruitment and retention of foster carers and adopters. Rising number of children in care. Tackling delays in the adoption process. Ensure permanence for all children in care in a more timely manner.

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

Following a detailed review of the procurement process, an improvement plan has been implemented with the objective of improving efficiency, streamlining processes and thereby delivering 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.

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

The Council 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.

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.

Following the collapse, a review of the Treasury Management Strategy was undertaken, with an immediate reduction in the number of eligible investment counterparties, the maximum period of investment and 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.

Recovery of monies

More than 120 local authorities had similar deposits with Icelandic banks at that time, totalling some £920m, and these joined forces, through the Local Government Association, to co-ordinate the recovery of the monies. In particular, lawyers were appointed to represent UK local authorities in the Icelandic Courts, whose role was to decide whether UK local authority deposits were treated as priority creditors in the administration process of Glitnir and Landsbanki banks.

Following a series of court cases in Iceland, the Council was confirmed as a priority creditor, with sufficient funds being identified within Glitnir and Landsbanki banks to enable repayment in full, albeit over a number of years.

Separately, the administration of the London-based Heritable Bank has been managed within the UK, with regular dividend payments to all creditors being made over the last 4 years.

Latest position

Since the banks went into administration in 2008, the Council has received a series of dividends from the administrators of the individual banks. The final sum to be received is dependant on a number of factors including the exchange rate applied in converting payments received in currencies other than sterling, and the release from escrow of monies paid in Icelandic Krone (currently being retained by the Central Bank of Iceland, pending resolution of existing foreign currency exchange issues in Iceland).

The following table details the amount of the Council's funds that have been returned to date, plus the current forecasted total recovery figure:

<u>BANK</u>	<u>ORIGINAL DEPOSIT</u>	<u>TOTAL RECOVERED TO DATE</u>			<u>ESTIMATED FINAL RECOVERY</u>		
		PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
	£m	£m	£m	£m	£m	£m	£m
Heritable	15.600	11.632	0.250	11.882	13.731	0.295	14.026
Landsbanki	15.000	7.079	0.328	7.407	15.000	0.696	15.696
Glitnir	11.000	8.694	0.516	9.210	11.000	0.653	11.653
	41.600	27.405	1.094	28.499	39.731	1.644	41.375

Governance

The steps taken to review the Council's processes in the wake of the banking crisis have provided a robust and transparent methodology with which to manage the Council's investments. This has proved to be an effective approach during the ongoing difficulties being experienced within the financial markets.

