

## AUDIT COMMITTEE – 27 February 2015

<b>Title of paper:</b>	<b>ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2013/14 AND PROCESS FOR PRODUCING 2014/15 STATEMENT</b>	
<b>Director(s)/ Corporate Director(s):</b>	Geoff Walker Acting Director of Strategic Finance	<b>Wards affected: All</b>
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<b>Other colleagues who have provided input:</b>		
<b>Recommendation(s):</b>		
<b>1</b>	Note the progress made to date in addressing the issues reported in the 2013/14 AGS, as detailed in <b>Appendix 1</b>	
<b>2</b>	Note the process and timetable for compiling and completing the 2014/15 AGS, as detailed in <b>Appendix 2</b>	

### **1. REASONS FOR RECOMMENDATIONS**

This report sets out the current position in respect of those issues reported in the 2013/14 Annual Governance Statement (AGS), and the process for compiling the 2014/15 AGS.

#### **1.1 Update of Issues Reported**

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

##### **1.1.1 Central Government Review of Local Government Funding & Balancing the Council's Budget**

The Government has implemented a rapid and extensive programme of policy change, accompanied by significantly reduced funding for the public sector. On current projections the Government's settlement funding for the Council will have reduced by circa £100m between 2010/11 and 2015/16 and in response, service and financial planning process has once again facilitated significant proposed movements in resources

##### **1.1.2 Children in Care**

A plan is in place to reduce the numbers of children who remain in care over the forthcoming year. 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. The Council has created a 'permanence team' which is the Children in

Care Team. The Council has also developed a The Edge of Care initiative to reduce the numbers of children coming into care.

Performance against children in care targets is strongly monitored and in some areas out performs against statistical neighbours. The Targeted Support Team continues to offer the effective delivery of services to children, young people and their families/carers, The reconfiguration of Nottingham City Council's Residential Services into Small Group Homes has served to support children and young people to be better placed, have improved outcomes in a cost effective manner and ensure young people receive a quality service that keeps them safe. All homes have met and exceeded minimum standards with one home receiving an OFSTED rating of outstanding and two homes receiving good with outstanding features.

### 1.1.3 EMSS

No major concerns have yet arisen in this regard. Some issues have been faced in terms of financial management since the implementation, and delays have been experienced in making payments to certain suppliers. The causes of this issue have been addressed and the resulting payment backlog is being cleared.

### 1.1.4 Nottingham Express Transit (NET)

Construction of NET Phase Two is underway. The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

### 1.1.5 Workplace Parking Levy (WPL)

The WPL income projections will be continually updated to reflect the latest information available from the WPL team. In the event that over the life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

### 1.1.6 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. More than 120 local authorities had similar deposits with Icelandic banks, totalling some £920m. All these authorities joined forces through the Local Government Association to co-ordinate the recovery of the monies. The latest claim administration reports state no further repayments are expected.

## Process for the Production of the AGS 2014/15

1.1.7 It is intended that the production of the AGS 2014/15 will closely follow the process of previous years noted by this committee, and the 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

- 1.1.8 The assurance will come from a self assessment based on customised questionnaires targeted at the appropriate assurance givers, together with other information provided in support of the 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 who will visit all departmental management teams to discuss audit plans and introduce the 2014/15AGS.
- 1.1.9 The questionnaires will 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.
- 1.1.10 The final AGS will be an account of the Council's governance arrangements in a format addressing the principle embodied in the Local Code of Corporate Governance. It will reflect the failings identified and note actions 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.

## 2. **BACKGROUND**

- 2.1 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.
- 2.2 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.
- 2.3 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."
- 2.4 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.
- 2.5 The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2013/14 on 19 September 2014. It was signed by the Leader

of the Council and Chief Executive and was published alongside the Statement of Accounts.

- 2.6 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.
- 2.7 Part of the 2013/14 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.
  - The 2013/14 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.

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

4. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

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

Nottingham City Council - Statement of Accounts 2013/14

Annual Governance Statement 2013/14

**AUDIT COMMITTEE – FEBRUARY 2015 – ITEMS TO FOLLOW UP.**

**Central Government Review of Local Government Funding & Balancing the Council's Budget**

As the 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. 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 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.

**Latest Position**

The Government has implemented a rapid and extensive programme of policy change, accompanied by significantly reduced funding for the public sector. On current projections the Government's settlement funding for the Council will have reduced by circa £100m between 2010/11 and 2015/16 and in response, service and financial planning process has once again facilitated significant proposed movements in resources. Such changes include to:

- take account of the Council's priorities within the Council Plan;
- address demographic and service pressures through investment;
- reflect the significant reductions in external funding (especially general and specific Government grants) by reducing expenditure on those activities;
- support our determination to be efficient, improve performance and modernise our organisation;
- recognise the very challenging financial landscape and future outlook and the impact on all sectors including the public sector.

Budgets have been redirected to enable some resources to be targeted on the Council's current focus of supporting the most vulnerable, local jobs, and enjoying Nottingham. Resources are proposed to be redirected by:

- reducing demand and reviewing the way we commission our services;
- reviewing and optimising income streams of all kinds;
- redesigning and modernising our service provision / identifying efficiencies.

In addition the Council will continue its focus on regeneration and growth through its Capital Investment Strategy.

**Children in Care**

The Children in Care service exists primarily to ensure that children have permanent plans for where they live. Nottingham's priority for its children in care is to ensure that

where possible, children live with their birth families. If that is not achievable then adoption and fostering are the next preferred options.

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.

## **Latest Position**

A plan is in place to reduce the numbers of children who remain in care 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 to adopters 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 to ensure that the use of a regional framework for all care registered and 16 plus 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 created a 'permanence team' which is the Children in Care Team. This became operational in April 2012. Further resources have since been agreed to support the effectiveness of the team to place children in permanency placements in a more timely way, and ensure delays are kept to a minimum. This is central to the strategy of ensuring better outcomes for our children in care population.

Performance against children in care targets is strongly monitored and in some areas outperforms against statistical neighbours. An area for growth and development against key performance targets is 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 priority area. NCC does better than its statistical neighbours (with the exception of Middlesbrough) in the recently published adoption scorecard. There was a significant increase in the number of adoptions in 2012/13 compared with the previous year. Resources have been realigned to build on that progress, based on evidence of what works well. The authority secured 43 adoptions and 43 Special Guardianship Orders for the financial year 2013/2014.

The Targeted Support Team continues to offer the effective delivery of services to children, young people and their families/carers, The reconfiguration of Nottingham City Council's Residential Services into Small Group Homes has served to support children and young people to be better placed, have improved outcomes in a cost effective manner and ensure young people receive a quality service that keeps them safe. All

homes have met and exceeded minimum standards with one home receiving an OFSTED rating of outstanding and two homes receiving good with outstanding features.

The Council has embarked on a further strategy to reduce the numbers of children coming into care. The Edge of Care Intervention Hub was launched in September 2013 which was for an initial 6 month pilot project, located and managed within the Targeted Support Team that has now been extended. To date, the Hub has supported 33 families that include 92 children. Of those 92, the Hub has worked directly with 70, of which it is felt that 65 have been directly at risk of being accommodated. 12 children have been accommodated. This amounts to an estimated budget relief of more than £1.2 million (based on placement type) over the 12 month period.

### **East Midlands Shared Service (EMSS)**

Leicestershire County Council (LCC) and Nottingham City Council (NCC) have been working in partnership to develop and implement an East Midlands Shared Service to support both transactional finance and HR administration/payroll processes. The shared service is supported by an implementation of the Oracle E-Business Suite. As is usual with this type of extensive system implementation, a great deal of focus has been applied to the financial control processes requiring review and redesign. Much of the risk for NCC has been mitigated by the fact that the Council was migrating to an existing LCC platform.

#### **Latest Position**

The Council's Accountancy and Audit services continue to closely monitor the activity and performance of the Oracle system closely. No major concerns have yet arisen in this regard. Issues have been faced in terms of financial management since the implementation on 2 April 2013, and delays have been experienced in making payments to certain suppliers. The causes of this issue have been addressed and the resulting payment backlog is being cleared.

### **Nottingham Express Transit (NET)**

Nottingham City Council entered into a 22 year Private Finance Initiative concession contract with Tramlink Nottingham Limited ("Tramlink") in December 2011 to extend and operate Nottingham's tram network. The concession contract passes the key design, build and construction risks, to Tramlink, the private sector concession company.

#### **Latest Position**

Construction of NET Phase Two is underway with an anticipated opening to passenger services during 2015. The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

### **Workplace Parking Levy (WPL)**

The WPL is a levy which applies to all employers within the Nottingham City Council administrative boundary. Employers that provide any workplace parking places are required to get a WPL licence and those with 11 or more chargeable places, to pay a

charge, from 1 April 2012. An important issue focuses on the ability of WPL to raise revenue to meet the Council's contribution to the NET Phase 2, the HUB and Link Bus network. The scheme was introduced on 1st October 2011 and charging commenced in April 2012.

### **Latest Position**

There has been concern regarding the ability of WPL to meet funding requirements. The WPL income projections will be continually updated to reflect the latest information available from the WPL team as the income collection is still in its infancy. In the event that over the 23 year life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

### **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 (Heritable, Landsbanki and Glitnir), at the time of the collapse.

### **Latest Position**

More than 120 local authorities had similar deposits with Icelandic banks at that time, totalling some £920m. All these authorities joined forces through the Local Government Association to co-ordinate the recovery of the monies. The latest claim administration reports state no further repayments are expected.





<b>Action</b>	<b>Feb 2015</b>	<b>Mar 2015</b>	<b>Apr 2015</b>	<b>May 2015</b>	<b>Jun 2015</b>	<b>Jul 2015</b>	<b>Sept 2015</b>	<b>Oct 2015</b>	<b>Feb 2016</b>	<b>Mar 2016</b>
Draft AGS, outlining the governance environment and any significant governance issues that need to be disclosed										
Take report to Audit Committee as the committee responsible for monitoring compliance with the Local Code										
Consider Issues from External Audit Annual Letter										
Report Final AGS to Audit Committee with Statement of Accounts										
Prepare / follow-up mid year report to Audit Committee for first meeting of new year										