

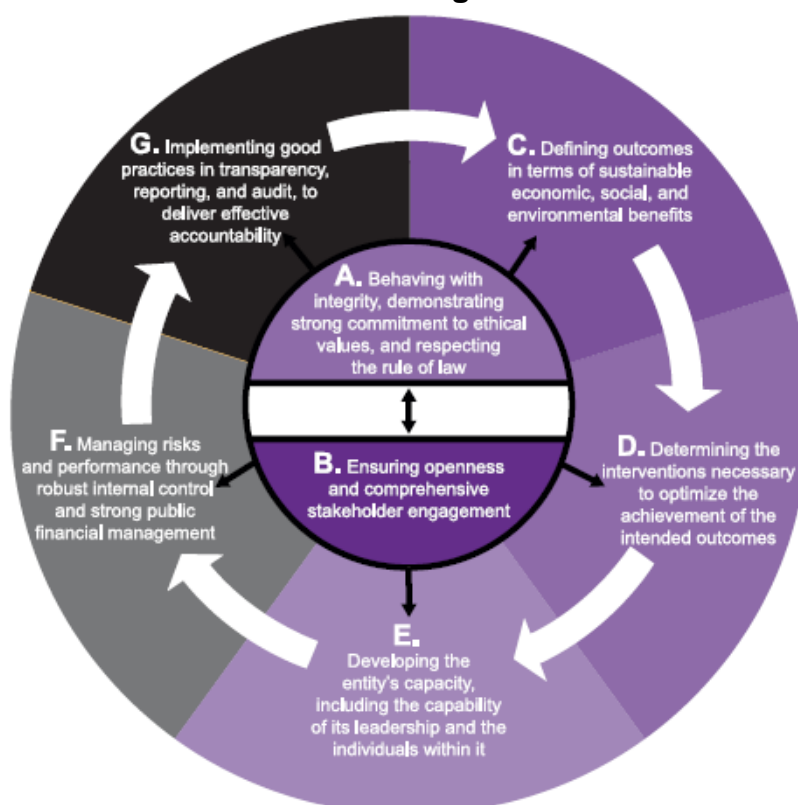
AUDIT COMMITTEE – 27 April 2018

Title of paper:		ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2016/17 AND PROCESS FOR PRODUCING 2017/18 STATEMENT	
Director(s)/ Corporate Director(s):		Laura Pattman Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:		Shail Shah Head of Audit & Risk shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:			
Recommendation(s):			
1	Note the progress made to date in addressing the issues reported in the 2016/17 AGS, as detailed in this report.		
2	Note the process and timetable for compiling and completing the 2017/18 AGS, as detailed in Appendix 1		

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report sets out the current position in respect of those issues reported in the 2016/17 Annual Governance Statement (AGS), and the process for compiling the 2017/18 AGS.
- 1.2. The council's local corporate governance code was updated in February 2017. The diagram below, taken from the International Framework, illustrates the various principles of good governance incorporated in the local code.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



Case Study Update – Interventions: Response to the Grenfell Tower Fire

The partnering arrangements between the Council and Nottingham City Homes (NCH) enabled an immediate response to be launched by NCH to:

- identify cladding materials used to clad high rise blocks within the Council's stock and assess risk;
- Communicate with, advise and reassure tenants of all properties with external cladding, both high and low rise;
- Identify and evaluate all potential safety measures and installations to prevent or reduce the risk of any such incident in one of the Council's high rise blocks.

A leadership action plan with clear actions, tasks, accountability, and timescales was developed by NCH in consultation with the Council's leadership.

In October 2017 Executive Board approved a programme of works to enhance existing fire safety provision within the Council's high rise blocks. The programme, to be carried out by Nottingham City Homes will include:

- Sprinklers in every flat
- Upgraded fire alarms
- New intercom system
- New public address system

This work is due to commence shortly.

The Council has operating arrangements with the Fire Authority on fire prevention and regulation, with the Fire Authority normally taking the lead on buildings of over 18m. Meetings take place to discuss approaches, these will continue and will be informed through information received, future guidance and direction.

During the summer, following the tragedy at Grenfell, the Council undertook a lot of work to try and ascertain which tall buildings (over 18m) in the city (whether in our ownership or privately owned) had aluminium composite material (ACM) cladding, which was the type used at Grenfell. Where buildings were found to have this type of cladding we have liaised with the owners, their agents and the Fire Authority to ensure that residents were aware, that appropriate measures were in place to ensure resident safety and ascertaining what the building owners' long term plans in relation to the cladding were.

One of the difficulties with ACM cladding is that it is not always easy for building owners to identify, consequently there has been an ongoing facility overseen by DCLG and Building Research Establishment (BRE) that allows building owners to send samples of their cladding to be tested to ascertain whether or not it is ACM. We are notified of these results periodically and should a result confirming ACM come in, we take appropriate action by contacting the owner to confirm that residents have been made aware and that mitigation measures have been implemented. We also contact the Fire Service to share the information so a visit can be arranged. The Fire Service notify us following their visit to confirm whether they are satisfied that the building is safe for operation with mitigation/safety measures in place.

There are a number of other tall buildings which may or may not have ACM cladding, the owners have been contacted but no response has been received, these addresses have been shared with the fire service and a further approach has been made to these owners requesting information.

The only tall building with ACM cladding where the owner has ceased occupation is Byron House on the Nottingham Trent University city campus, which will remain vacant until the cladding is replaced. A total of 4 tall buildings have now been identified with ACM cladding installed to differing extents on the exterior. A further 3 tall building are awaiting results of testing from BRE. The Fire Service is satisfied with the procedures and mitigation currently in place for each building. We are in dialogue with the property owners and their advisors as they assess what course of action they will take in the long term with regards to the cladding and will notify us of the outcome when a decision is made.

Whilst these tall building owners have been progressing their plans to remove and replace the failed cladding, the timescales for this are not yet confirmed. The tall buildings working group is currently investigating what legislation/powers are available to take enforcement action should that become necessary. It is unclear what legislation could be used to require removal of failed cladding and no information is yet available from successful enforcement by any other Councils. The advice from Government is unclear, although reference is made to using the Housing Act. Following the recent example of Slough Borough Council intervening to purchase a tall residential block where a landlord resisted replacing the failed cladding it is clear that further consideration is required.

Update of Issues Reported

- 1.1. Issues worthy of note identified in the 2016/17 AGS have been revisited and an update of the latest position established. In Summary

• EMSS

- 1.2. The Council's Accountancy and Audit services continue to monitor the activity and performance of EMSS closely. Issues have been faced in terms of financial management since the implementation and delays have been experienced in making payments. The causes of this issue have been addressed and the resulting payment backlog has been reduced. Although there are continuing system and process issues due to constraints of the existing system. These are a key focus of the system replacement project.
- 1.3. To provide clarity of responsibilities, a service level agreement has been set up between NCC and EMSS.
- 1.4. A new invoice scanning solution has been introduced in 2017/18 which embraces developments in OCR (Optical Character Recognition) technology which should provide for a more efficient and effective Accounts Payable service.
- 1.5. The restructure of Strategic Finance within NCC has seen the creation of a dedicated transactional team. This team has been working closely with EMSS on improvement activity within Accounts Payable and Accounts receivable functions with the development of clear key performance indicators. Some of the programmed improvement activity has been put on hold pending the outcome of the joint project re the replacement of Oracle.

• Replacement of Oracle

- 1.6. Currently Leicestershire County Council and Nottingham City Council share an Oracle e-business platform to support a range of functions. These include procurement and payments to suppliers, billing and income from customers, financial budgeting and reporting, general ledger, HR processes, employee contract management, payroll and a range of statutory and business reporting capabilities.
- 1.7. The current solution presents future support challenges. Our current version of e-business is only supported by Oracle until December 2021 and the current hosting contract is due for renewal in March 2019, although there is the option to extend for one year. This means that ideally we will have identified and implemented a suitable alternative by April 2020.
- 1.8. A joint project has been commissioned to procure a replacement HR and Finance system and the Council is working with our partners to explore the opportunities to reduce the cost of providing the relevant functionality to their customers, improve the user experience and drive improvement and efficiencies through standardised, simplified processes.

• Central Government Review of Local Government Funding and Balancing the Councils Budget

- 1.9. The Government has implemented a rapid and extensive programme of policy change, accompanied by significantly reduced funding for the public sector. In response, service and financial planning processes have changed to
 - take account of the priorities within the Council Plan 2015-2019;
 - 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 the Council's determination to be efficient, improve performance and modernise the organisation;
 - recognise the very challenging financial landscape and future outlook and the impact on all sectors, including the Public Sector.
 - Continue to focus on regeneration and growth through capital investment
- 1.10. In addition, the Council's approach to setting recent budgets has, where possible, been guided by the following principles:
- to pursue commercialisation opportunities to generate income for the Council; and help offset a proportion of the impact of grant reductions;
 - reducing demand and reviewing the way we commission our services;
 - redesigning and modernising our service provision / identifying efficiencies;
 - to protect frontline services and minimise the impact of service reductions and changes on vulnerable citizens
- 1.11. Local authorities continue to operate in a challenging financial environment of reduced levels of Government funding; with the full consequences of Brexit yet unknown.
- 1.12. The Autumn Budget published on 22 November 2017 reported key economic indicators have worsened considerably since the previous March budget. There were no measures to address the rising demand and funding gaps for Adult Social Care and Children's services. There were also no significant announcements for policy areas such as Fair Funding Review or business rates retention.
- 1.13. The City Council, like all other local authorities across the country, has seen a substantial and sustained reduction in Government funding because of austerity policies. Revenue Support Grant (RSG) as a proportion of the Council's total revenue funding has reduced and this trend will continue in future years and RSG will have fallen from **£126.8m** in 2013/14 to **£35.0m** in 2018/19.
- 1.14. By 2018/19 Nottingham will be in the third year of a 4-year settlement agreed with the Department of Communities and Local Government (DCLG). RSG will have fallen by **£38.8m** or **53%** since the start of this funding settlement.
- 1.15. Alongside this reduction in grant income, Nottingham has seen increased demand for a number of services, for example Adult Social Care and Children in Care. These increasing care costs, alongside continuing funding cuts, will have a significant impact on the Council's ability to fund other local services.
- 1.16. In the period from 2010/11 to 2017/18 the Council has had to make savings totalling **£232.7m** and will have to continue making difficult decisions about the services it provides in order to close the initial projected budget gap of **£27.1m** in 2018/19 plus potential overspend risks of **£5.4m** predominantly within Adults.
- 1.17. Saving proposals have been made in accordance with NCC budget strategy and many of these have been achieved by finding alternative and more cost-effective ways to deliver the same level of service, or by improving efficiency without any detriment to service delivery, as well as generating more income. However, the options for achieving budget reductions in this way are becoming more limited.
- 1.18. The 2018/19 budget is predicated on a long-standing sound financial position, although this has come under increased pressure and the Council was overspent on its general fund budget for the first time in 2016/17.

- 1.19. The 2017/18 monitoring has been reported to Executive Board and Q2 of 2017/18 is currently projecting a potential overspend of £2.700m, work is being undertaken to mitigate this overspend. The main areas of overspend relate to demand led services such as Adults Social Care and Children's services.
- 1.20. The General Fund capital programme 2017/18 to 2021/22 of £453m shows a current funding surplus of £2.789m that represents 0.6% of the total programme and is to be used as a contingency against future pressures. The programme is predicated on a number of projects in development, the cost of these projects are estimated and are subject to change. These include the Broadmarsh schemes, which is a corporate priority, but funding is yet to be identified. Any surplus on the programme and future capital receipts will be ring-fenced for the Broad marsh schemes.

- **Housing Revenue Account - HRA**

- 1.21. The HRA is balanced in medium term but there is a long-term gap on capital investment requirement.
- 1.22. The Welfare Reform and Work Act 2016 requires that social rents are reduced by 1% per annum for four years from 2016, with 2018 being the third year the Council has had to reduce rents. There is uncertainty over future rent policies after the four year period
- 1.23. The roll out of Universal Credit, originally envisaged for 2018, has been delayed until at least October for Nottingham. Universal Credit will replace 6 existing benefits and merge them into one payment will be paid monthly in arrears. This is an unquantified financial impact on collection values and debt recovery

- **Children in Care**

- 1.24. The cost of funding children in care arrangements is a key issue facing the Council. Numbers of children in care both nationally and locally are at historical highs. Just one example of the national profile is that In 2016/17 applications for care orders nationally were 35.5% higher than 2013/14. Interim figures for 2017/18 suggest that the rate of applications will be similar to that in 2016/17.
- 1.25. In January 2018 we had 632 children in care, 21 of who were unaccompanied asylum seekers. Home Office grant supports the placement cost of these children. Work continues to scrutinise plans for children in order to ensure that safe exits from care are expedited and admissions into care only take place where there is no viable alternative.
- 1.26. We continue to work hard to recruit local foster carers despite the aggressive competition from private agencies. The additional capacity established to facilitate this work has been maintained and we anticipate having a net increase in foster carers by the end of 2017/18. As at 7th February 2018 there were 270 children in placement with Independent Fostering Agency carers.
- 1.27. In December 2017 87.5% of our care leavers aged 19 – 21 were in suitable accommodation, which is slightly higher than the last reported performance in other similar authorities of 84%. 60.2% of care leavers aged 19 – 21 were in education, employment or training, which is again higher than the rate in other similar authorities of 52%
- 1.28. Our residential Children's homes continue to perform strongly when visited unannounced for inspection by Ofsted. Our seven Ofsted registered homes have been inspected unannounced by Inspectors and are all as at January 2018 continue to be rated as Good or Outstanding.

- **Workplace Parking Levy (WPL)**

- 1.29. The overall NET/WPL financial model is regularly updated to reflect the actual WPL income received each financial year together with the latest projections of future income. Should forecasts indicate that insufficient WPL income may be generated over the life of the NET Phase 2 contract to achieve a balanced position by 2033/34, decisions may be made in respect of the ongoing contributions to the Green Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

- **Information Governance**

- 1.30. The role and responsibilities of the Senior Information Risk Owner (SIRO) have been expanded to include; overall ownership of information risk management across the council, acting as champion for information management activities in order to mitigate against potential risks, and realising greater operational efficiencies and improved customer services. An Information Management Assurance Board, led by the SIRO, meets bi-monthly, and aims to ensure information is managed in a holistic manner across the whole organisation with a focus on compliance, transparency, and efficiency.
- 1.31. Performance associated with requests under Freedom of Information and Environmental Information Regulations continue to remain above the recently increased statutory target. Previous challenges associated with managing and processing personal information requests under the Data Protection Act (DPA) have been addressed and performance is now routinely in line with statutory expectations.
- 1.32. The council remains compliant with the Department of Communities and Local Government's Transparency Code 2015, and continues to lead in proactively making datasets available for re-use, via the Open Data Nottingham portal, thereby providing continued commitment to the council's value of being open and transparent. A recent internal audit identified a positive direction of travel in terms of how the Information Rights & Insight Team review and make non-personal information available.
- 1.33. In May 2018, the EU General Data Protection Regulation (GDPR) and the Data Protection Act [2018] will replace the Data Protection Act 1998. The GDPR imposes new, and significantly more stringent, requirements for the handling of personal data. It is recognised that new procedures will need to be put in place to deal with the provisions of the GDPR. An Information Management Assurance board has been set up which will in part oversee the GDPR project which has been designed and is currently being implemented across the organisation. The GDPR project plan outlines the organisational and technical measures needed to secure compliance with its principles. It is recognised there could be significant associated budgetary, I.T., personnel, governance and communications implications.

- **Robin Hood Energy**

- 1.34. The Council wholly own this private limited company licensed to supply gas and electricity to domestic and non-domestic customers in England, Scotland and Wales. It is a not-for-profit company and began offering credit tariffs in May 2015 followed by prepayment tariffs and commercial tariffs. Governance arrangements are now established including weekly management meetings and bi-monthly Board meetings. The Board comprises 8 Directors, of which 4 are councillors, 3 are executive managers (Chief Executive Officer, Finance Director and Operations Director) and 1 Non-Executive Director from EBICO (White Label Partner).

- **Enviroenergy**

- 1.35. The Council wholly own this private limited company which both generates heat and power and sells heat and power to commercial and domestic customers in Nottingham. The company has launched additional commercial services, billing provision for a number of housing associations outside Nottingham and the development and sale of a heat monitor. The Board comprises 4 Directors (all Councillors) and meets on a bi-monthly basis.
- 1.36. 2017 has been a challenging year for the company with an extended shutdown over the summer coming out of the planned maintenance programme. Enviroenergy continues to work closely with the Council (as shareholder) in the development of a sustainable long term financial strategy to ensure investment obligations and scheme longevity are deliverable and affordable to the company.

1.2 Process for the Production of the AGS 2017/18

- 1.2.1 It is intended that the production of the AGS 2017/18 will closely follow the process of previous years noted by this committee, and the timetable is given at **Appendix 1**. 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
- 1.2.2 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 and will be based on the relevant best practice developed produced by CIPFA/SOLACE.
- 1.2.3 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 2017/18 AGS.
- 1.2.4 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.
- 1.2.5 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 2015. 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 2016 (effective for 2017/18 statement)) 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 In 2012 CIPFA/SOLACE produced an updated guidance note covering the delivery of good governance in local government and how an authority's arrangements can be reflected in the AGS. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS
- 2.4 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."
- 2.5 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 1**) will be used to monitor the progress of the AGS.
- 2.6 The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2016/17 on 18 September 2015. It was signed by the Leader of the Council and Chief Executive and was published alongside the Statement of Accounts.
- 2.7 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.
- 2.8 Part of the 2016/17 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 2016/17 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**

3.1 None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

4.1 Accounts & Audit Regulations 2015

4.2 CIPFA/SOLACE - Delivering Good Governance in Local Government Framework,
2016

4.3 Executive Board 20 May 2008 - Local Code of Corporate Governance

4.4 Nottingham City Council - Statement of Accounts 2016/17

4.5 Annual Governance Statement 2016/17