

REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR RESOURCES

ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2009/10 AND PROCESS FOR PRODUCING 2010/11 STATEMENT

1 PURPOSE OF THE REPORT

This report updates the Committee on the current position in respect of those issues reported in the 2009/10 Annual Governance Statement (AGS), and informs it of the process for compiling the 2010/11 AGS.

2 RECOMMENDATIONS

That the Committee notes the progress made to date in addressing the issues reported in the 2009/10 AGS, as detailed in **Appendix 1**, and 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 it sets and meets its objectives and responsibilities 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 2009/10 on 24 September 2010. It was signed by the Leader of the Council, the Chief Executive and the Deputy Chief Executive 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 2009/10 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 2009/10 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

Phase 1 was implemented on 1 November 2010. Phase 2 is underway, covering smaller employee groups than those covered by Phase 1. Particular challenges to be resolved fall around school based terms and conditions and non-teaching school based employees. Consultation with Trade Unions will be on-going throughout the process.

4.2.3 Balancing the Council's Budget

The overall level of the Council's spending is being managed through the Corporate Leadership Team and the Executive Board. A robust approach has been adopted in the development of the 2011/12 detailed budget.

4.2.4 International Financial Reporting Standards

Plans are in place, supported by training and advice from CIPFA, to deliver the project within the required timescales. The detailed approach towards the delivery of specific IFRS requirements continues to be reviewed by Audit Commission colleagues, who have been able to confirm their acceptance of this approach.

4.2.5 Children in Care

Work to reduce numbers of children in care has been brought together into a 'Placements Programme'. In the first half of 2010/2011 a declining trend in the number of Children in Care is beginning to show.

4.2.6 Housing and Council Tax Subsidy Claim

At the end of September 2010, the Audit Commission issued a revised qualification letter to the Department for Works and Pensions (DWP), reducing the level of qualification from £2.1 million to £0.424m. This adjustment represents 0.3% of the Housing and Council Benefit expenditure.

4.2.7 Accounts Payable

Accounts Payable (AP) is improving efficiencies and processes in line with best practice to give significant business benefits in the transactional processing. However some problems have been encountered and plans have been adjusted to deliver streamlined processes and become service efficiencies, including:

- a programme of increasing the procurement of the Council's goods and services using requisitioning and purchase order processing due to for completion at the end of the 2010/11 financial year.
- the introduction of a scanning solution to significantly change the way in which AP works. AP are concurrently working with its service area partners to clear any remaining backlog invoices by the end of the financial year. The scanning solution and a transition to Loxley House were completed at the end of January 2011.

4.2.8 Central Government Review of Local Government Funding

The 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. Plans are in place to ensure the Council's financial forecasts are accurate, both in terms of value and timing.

4.2.9 Icelandic Banks

The treasury management process has been further strengthened during 2010. The Council continues to work closely with the Local Government Association in seeking the repayment of the sums invested in the failed Icelandic Banks. Although differing legal approaches are required for each of the three banks involved, latest information continues to indicate that the majority of the funds will be returned in due course. A total of £7.988m had been returned by the end of January 2011.

Process for the Production of the AGS 2010/11

- 4.3 It is intended that the production of the AGS 2010/11 will closely follow the processes adopted for the AGS 2009/10, 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 2010/11 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 2009/10
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 24 Sept 2010 - AGS 2010
Nottingham City Council - Statement of Accounts 2009/10

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Annual Governance Statement 2009/2010 – 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 2011

The ongoing consultation with the Trade Unions allowed the Council to implement Phase 1 of Single Status with effect from 1 November 2010 as planned with a collective agreement covering some of the proposed changes. Phase 1 covered non-school based employees on the national terms and conditions for local government and represents the majority of the workforce. Phase 2 covers a number of smaller employee groups and implementation for those groups will take place over the next 12 – 16 months. The most significant group in Phase 2 is non-teaching school based employees and there are some particular challenges around school based terms and conditions that will need to be overcome. Consultation with the Trade Unions will be ongoing through the implementation period.

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 2011

Opportunities for savings and the redistribution of financial resources to priority areas were identified through the 2010 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. A similarly robust approach has been adopted in the development of the 2011/12 detailed budget.

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 2011

The Corporate Accounting team has developed detailed plans that will allow the delivery of IFRS within the required timescale. These plans, supported by training and advice from CIPFA, have been tested through comparison with other local authorities and Audit Commission expectations. The associated timetable is being monitored closely and progress is in line with that schedule. The detailed approach towards the delivery of specific IFRS requirements continues to be reviewed by Audit Commission colleagues, who have been able to confirm their acceptance of this approach.

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 2011

A plan is in place to reduce these numbers over the forthcoming year. Part of this work involves systematic use of tools to help return young people to their families and the formulation of a family support strategy that will ensure better early intervention work takes place to reduce the number of children entering/re-entering care. Additionally work is underway to achieve better value for money for the placements procured for children in care.

All of this work has been brought together into a 'Placements Programme'. In the first half of 2010/2011 a declining trend in the number of Children in Care is beginning to show.

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 2011

The local authority manages the financial risk associated with the subsidy grant and has sufficient provision in the budget.

Additional work has been undertaken to challenge the potential impact of the qualification letter for the 2008/2009 subsidy claim. The Council has agreed a position with the Audit Commission on the statistical extrapolation calculations used to derive the final figure. The DWP responded on the 26 July 2010, requiring the Audit Commission to review the work undertaken by the Council and where appropriate re-state original audit findings accordingly. On the 28 September 2010, the Audit Commission issued a revised qualification letter to the DWP, reducing the level of qualification from £2.1 million to £0.424m. This adjustment represents 0.3% of the Housing and Council Benefit expenditure.

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 2011

AP is improving efficiencies and processes in line with best practice to give significant business benefits in the transactional processing. However, restructuring in the Council has resulted in some unique challenges, which in turn resulted in the progress not being entirely without its problems. Plans have consequently been revised to deliver streamlined processes and become service efficiencies.

To facilitate this, AP has embarked on a programme of increasing the procurement of the Council's goods and services using requisitioning and purchase order processing. This programme is due for completion at the end of the 2010/11 financial year. This will lead to a streamlined payment authorisation process and reduce the administrative costs associated with seeking authorisation from an approved signatory/budget holder.

AP is also working with its business partners in Procurement, Purchase Order Processing (POP) and financial management to streamline processes. The aim is to have 80% of Purchases made using POP by the end of the current financial year. A scanning solution will significantly change the way in which Accounts Payable works and will continue to improve the whole procure to pay process and ensure strong financial control. AP are currently working with its service area partners in clearing any remaining backlog invoices and the aim is to increase their target of paying invoices on time from 84% to 90% by the end of the financial year. Testing the scanning solution began in December and was implemented alongside the transition to Loxley House by the end of January 2011.

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 2011

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 2011

The treasury management process has been further strengthened during 2010, in line with reported intentions, and a further amendment to the strategy has allowed an increase in investment returns within closely managed parameters. The Council continues to work closely with the Local Government Association in seeking the repayment of the sums deposited in the failed Icelandic Banks. Although differing legal approaches are required for each of the three banks involved, latest information continues to indicate that the majority of the funds will be returned in due course. A total of £7.988m had been returned by the end of January 2011.

Action	Feb 2011	Mar 2010	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sept 2011	Oct 2011	Feb 2012	Mar 2012
Review other sources of assurance											
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											