



## **Nottingham City Council Audit Committee**

**Date:** Friday, 26 November 2021

**Time:** 10.30 am

**Place:** Ground Floor Committee Room - Loxley House, Station Street, Nottingham,  
NG2 3NG

Please see information at the bottom of this agenda front sheet about arrangements for ensuring Covid-safety.

**Councillors are requested to attend the above meeting to transact the following business**

**Director for Legal and Governance**

**Governance Officer:** Kate Morris

**Direct Dial:** 0115 876 4353

- 1 Apologies**
- 2 Declarations of Interests**
- 3 Minutes** 5 - 8  
To confirm the minutes of the meeting held on 24 September 2021
- 4 Work Programme and Action Log** 9 - 12  
To note
- 5 Working Group Updates**  
Verbal updates from the Chairs of the Working Groups
- 6 Update on the Audit of the Councils Statutory Accounts 201920 and 202021** 13 - 16  
Report of the Interim Corporate Director of Finance and Resources
- 7 External Audit Update**  
Verbal update from the External Auditor, Grant Thornton
- 8 Council Plan and Corporate Performance Assurance** 17 - 26  
Report of the Interim Director Strategy and Policy and the Interim Corporate Director of Finance and Resources

<b>9</b>	<b>Internal Audit Update</b> Report of the Interim Corporate Director of Finance & Resources	27 - 72
<b>10</b>	<b>Contract Management and Procurement Audits 2021</b> Report of the Interim Corporate Director Finance and resources	73 - 120
<b>11</b>	<b>Retender of External Audit for 2023/24 to 2027/28</b> Report of the Interim Corporate Director of Finance and Resources	121 - 128
<b>12</b>	<b>Treasury Management 2021/22 Half Yearly Update</b> Report of the Interim Corporate Director of Finance & Resources and S151 Officer	129 - 150
<b>13</b>	<b>Companies Governance Update</b> Report of the Interim Corporate Director of Finance and Resources	151 - 152
<b>14</b>	<b>Recovery and Improvement - Culture Update</b> Report of the Director of HR, and EDI, and the Interim Corporate Director Finance and Resources	153 - 154
<b>15</b>	<b>Risk Management and Corporate Risk and Assurance Register Update</b> Report of the Chief Executive, and the Interim Corporate Director of Finance & Resources	155 - 158
<b>16</b>	<b>Exclusion of the Public</b> To consider excluding the public from the meeting during consideration of the remaining item(s) in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.	
<b>17</b>	<b>Risk Management and Corporate Risk and Assurance Register Update - Exempt Appendices</b> Report of the Chief Executive, and the Interim Corporate Director of Finance & Resources	159 - 168
<b>18</b>	<b>Internal Audit Update - Exempt Appendix</b> Report of the Interim Corporate Director of Finance & Resources	169 - 170
<b>19</b>	<b>Exempt Minutes</b> To confirm the exempt minutes of the meeting held on 24 September 2021	171 - 172

If you need any advice on declaring an interest in any item on the agenda, please contact the Governance Officer shown above, if possible before the day of the meeting

Citizens attending meetings are asked to arrive at least 15 minutes before the start of the meeting to be issued with visitor badges

Citizens are advised that this meeting may be recorded by members of the public. Any recording or reporting on this meeting should take place in accordance with the Council's policy on recording and reporting on public meetings, which is available at [www.nottinghamcity.gov.uk](http://www.nottinghamcity.gov.uk). Individuals intending to record the meeting are asked to notify the Governance Officer shown above in advance.

In order to hold this meeting in as Covid-safe way as possible, all attendees are:

- asked to maintain a sensible level of social distancing from others as far as practically possible when moving around the building and when entering and leaving the meeting room. As far as possible, please remain seated and maintain distancing between seats throughout the meeting.
- strongly encouraged to wear a face covering when entering and leaving the meeting room and throughout the meeting, unless you need to remove it while speaking to enable others to hear you. This does not apply to anyone exempt from wearing a face covering.
- make use of the hand sanitiser available and, when moving about the building follow signs about traffic flows, lift capacities etc

This page is intentionally left blank

## Nottingham City Council

### Audit Committee

**Minutes of the meeting held at Loxley House on 24 September 2021 from 10.33 am - 11.27 am**

#### Membership

##### Present

Councillor Graham Chapman  
Councillor Michael Edwards  
Councillor Jane Lakey  
Councillor Sajid Mohammed (Vice Chair)  
Councillor Anne Peach  
Councillor Ethan Radford  
Councillor Andrew Rule

##### Absent

Councillor Audra Wynter  
Councillor AJ Matsiko

#### Colleagues, partners and others in attendance:

Beth Brown	- Head of Legal and Governance
John Gregory	- Grant Thornton, External Auditors
Shail Shah	- Head of Audit and Risk
John Slater	- Group Auditor
Laura Wilson	- Senior Governance Officer

#### 30 Chair

In the absence of the Chair, the Vice-Chair, Councillor Sajid Mohammed, took the Chair for the meeting.

#### 31 Update in Membership

The Committee noted the appointment of Councillor Ethan Radford.

#### 32 Apologies

Councillor Audra Wynter – other Council business

#### 33 Declarations of Interests

Councillor Ethan Radford informed the Committee that he was no longer a Board member of Nottingham City Homes.

#### 34 Minutes

The minutes of the meeting held on 30 July 2021 were confirmed as a true record and were signed by the Chair.

### **35 Work Programme and Action Log**

Committee Members noted the proposed work programme, and that there would be no meeting held in October or December, but that a meeting would be arranged to consider the Statement of Accounts as soon as the external audits are complete.

### **36 Working Group Updates**

The Chair invited updates from the Working Groups.

Councillor Graham Chapman updated the Committee on the Anti-Fraud Working Group. Items discussed included the focus on fraud against the Council including East Midlands Shared Services and waste, in the last quarter business rates and council tax were targeted, referrals to departments have been made, and the working group received the annual fraud report.

The Working Group would like to request that the Chair of the Audit Committee writes to the Chief Finance Officer and relevant Portfolio Holder to request that they establish a target saving from fraud detection to be included in the budget.

Councillor Jane Lakey provided an update from the Capital Working Group, highlighting that progress being made but there is a need to understand the key projects, statistics and KPIs are being monitored, and there will be updates on the district heating system and Broadmarsh at each meeting

Councillor Andrew Rule provided an update from the Companies Working Group, highlighting that the Group is looking at the progress of evaluations of the companies, and two are expected by December. Work is being done to establish regular standard interactions with the companies, and standard principles for companies to follow in procuring Internal Audit are being established by the relevant officers.

Shail Shah, Head of Audit and Risk, informed the Committee that a report on the Council's companies will be brought to the Committee in the next municipal year, and that the Council will be establishing the minimum level of assurance that it expects from the companies.

**Resolved to request that the Chair of the Audit Committee writes to the Chief Finance Officer and relevant Portfolio Holder to request that they establish a target saving from fraud detection to be included in the budget.**

### **37 Audit Committee Annual Report 2020/2021**

In the absence of the Chair, Shail Shah, Head of Audit and Risk, introduced the Audit Committee Annual Report 2020/2021. He thanked the Committee members for their work on behalf of the Chair, and highlighted that the Committee has had a positive impact for the Council and has tackled some difficult issues. Appendix A to the report give specific details on what the Committee has achieved, and the report will be submitted to Full Council for consideration.

Members felt that the report focussed on descriptions of progress instead of focussing on outcomes. It needs to be clearer about the differences the Committee has made and the impact of the work that has been carried out.

**Resolved to request that the Chair and Vice-Chair, working with the Head of Audit and Risk, amend the report to make it more outcome focussed.**

### **38 Have Your Say Complaints Annual Assurance Report – Including Local Government Ombudsman Annual Letter 2020-21**

In the absence of the author, Shail Shah, Head of Audit and Risk, introduced the report which provides details on the complaints received under the Have Your Say process, the statutory Social Care complaints process, and about the School Admissions appeals process, and the decisions made on these complaints by Nottingham City Council, and the Local Government and Social Care Ombudsman for the period of 1 April 2020 to 31 March 2021.

Committee members raised the following queries:

- How are the statistics from the complaints used? Does it impact on service planning, or the Medium Term Financial Plan?
- Could more be done to learn from the figures and content?
- How effective is the Have Your Say system in identifying multiple complaints relating to the same issue? How can the effectiveness of the system be improved as it often records issues as completed even though there has been no response?
- Why doesn't the report cover complaints to the Housing Ombudsman?
- What is the reason for the reduction in the number of complaints? Is this impacted by the pandemic?
- Why are missed bins counted as a complaint if they are collected straight away as it has no impact?

**Resolved to request an additional report to respond to the questions raised by the Committee.**

### **39 Future meetings dates - Update**

The Committee noted that the meeting planned for October 2021 will be held later in the municipal year, with the date to be confirmed.

### **40 Exclusion of the Public**

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda item(s) in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, as defined in Paragraph(s) 3 of Part 1 of Schedule 12A to the Act.

**41 East Midlands Shared Service Annual Report 2020-21**

The Committee discussed the content of the exempt report as detailed in the exempt minutes and noted its content.



**Audit Committee Work Programme & Action Log**  
**Proposed Work Programme**

Key - *Italicised items for noting, remainder for discussion*

## 2021

### Nov

*Council Plan & Corporate Performance Assurance*  
Companies Governance Sub-Committee Update  
Treasury Management Half Year Report  
Corporate Risk & Assurance Register  
Culture Workstream Update  
Internal Audit Update including Limited Assurance audits  
and High Priority Recommendations  
Procurement of External Audit  
Service Report on Progress following Limited Assurance IA Report  
(Procurement Dispensations & Contract Management)  
Accounts update

### Feb 2022

Transformation Plan update  
Treasury Mgt Strategy & Capital Strategy  
AGS Process 2021-22  
Non-Executive Amendments to the Constitution  
SEND Annual Assurance Monitoring 2021/22  
*Annual Information Compliance Assurance*  
Internal Audit Update including Limited Assurance audits  
and High Priority Recommendations  
*Review of Accounting Policies 2020/21*  
Service Report on Progress following Limited Assurance IA Report  
(IT Security & Governance)

### Apr 2022 (To be confirmed)

External Audit Report 2019-20  
Statement of Accounts 2019-20 & Final AGS 2019-20  
External Audit Report  
Statement of Accounts 2020-21 & Final AGS 2020-21

Key - Italicised items for noting, remainder for discussion

### May 2022

Corporate Risk Update  
Companies Update  
*Health & Safety Annual Assurance*  
*HR & EDI Assurance*  
*Internal Audit PSIAS Peer Review*  
*Internal Audit Update*  
*Annual Updates from Working Groups*  
Service Report on Progress following Limited Assurance IA Report

### Jul

- Financial Accounts Training tbc  
Draft Statement of Accounts 2021-22 & Interim AGS 2021-22  
Treasury Management Annual Report  
*IA Annual Report & Opinion including Counter Fraud Strategy*  
Service Report on Progress following Limited Assurance IA Report

### Sep

Audit Committee Annual Report  
*Internal Audit Update*  
*Customer Experience/Complaints*  
*& Ombudsman Annual Assurance*  
*EMSS Annual Report*  
Service Report on Progress following Limited Assurance IA Report

Key - *Italicised* items for noting, remainder for discussion

### Action Log

Date of meeting	Issue	Action taken	Target Date	RAG Rating
25 Sep 20	Training 2019-20 AGS	Accounts training Jun tbc	Apr 2022 tbc	
		To be considered as part of finalisation process and final report	Apr 2022 tbc	
26Feb21	Ombudsman / SEND	Audit committee to receive as a one-off in 21/22 SEND Annual Assurance Monitoring	February 2022	
28May21	Culture	Update regarding Culture Recovery & Improvement Plan	November	
30Jul21	Treasury Management	Team will consider how they can present savings or quantitative value of the service	November	
	IA Annual Report	Dedicated session on IT Security at a working group	October	
		All limited assurance IA reports to be considered on directorate risk and assurance register	November	
		Consider limited assurance IA reports at working group	November	
		Counter Fraud Strategy & Fraud Annual Report to Fraud working group	October	
24Sep21	Customer Complaints	Written response to councillors questions	November	
	Annual Audit Committee Report	Revisions to the report	November	
	Annual Audit Committee Report	Report to be presented at full Council	January / February 2022	

**Audit Committee – 26 November 2021**

<b>Title of paper:</b>	Update on the Audit of the Council’s Statutory Accounts 2019/20 and 2020/21	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy - Interim Corporate Director Resources	<b>Wards affected: All</b>
<b>Report author(s) and contact details:</b>	Lisa Kitto – Deputy s151 Officer and Finance Strategic Lead <a href="mailto:Lisa.kitto@nottinghamcity.gov.uk">Lisa.kitto@nottinghamcity.gov.uk</a>	
<b>Other colleagues who have provided input:</b>	Susan Ridsall - Team Leader – Technical Accounting <a href="mailto:Susan.Ridsall@nottinghamcity.gov.uk">Susan.Ridsall@nottinghamcity.gov.uk</a>	
<b>Does this report contain any information that is exempt from publication?</b> No		
<b>Recommendation(s):</b>		
1.	To note the progress in completing the external audit of the Council’s Statutory Accounts 2019/20 and 2020/21	

**1. Reasons for recommendations**

- 1.1 To update the Audit Committee on the current position regarding the production, audit and approval of the 2019/20 and 2020/21 Statements of Accounts.

**2. Background**

- 2.1 The Council has been unable to finalise the Statements of Accounts for 2019/20 due to two outstanding issues which also impact the 2020/21 Statement – Robin Hood Energy and the valuation of specialist assets.
- 2.2 Whilst Nottingham’s issues are specific, delayed audit opinions continue to be a major concern in the local audit system. The growing scale of the challenge is illustrated by the latest figures with only 9% of local government bodies having had audits completed by the target publishing date for 2020/21, compared to 45% for 2019/2020 audits and 57% for 2018/2019 audits.

**2019/20 Statement of Accounts**

- 2.3 The 2019/20 draft Statement of Accounts was published in August 2020 in accordance with the statutory deadline albeit incomplete in respect of the issues below. The key issues emerging from the audit work were:

**Robin Hood Energy**

- 2.4 The Council had consolidated the draft 2019/20 financial statements for RHE, which had been prepared on a going concern basis into the group consolidated statements. However as the company entered administration less than 12 months after the end of

the 2019/20 reporting period, the going concern basis of accounting is not considered to be appropriate.

- 2.5 RHE Auditors, McIntyre Hudson, had completed the majority of the RHE audit work for 2019/20 but the company went into administration before the audit opinion was signed. Once in administration, there was no requirement for them to do so or for a set of accounts to be filed at Companies House.
- 2.6 Grant Thornton, as part of their audit work, requested assurances for RHE Accounts given that there are no final audited accounts available to consolidate into the final Statement of Accounts. McIntyre Hudson were able to provide full working papers to the point of issuing an opinion but were unable to assist in the opinion itself as they no longer have access to RHE information.
- 2.7 In light of this, and following challenge from the Council, a Grant Thornton Technical panel was convened to consider the issues and how the auditors could satisfy their requirements. Feedback from Grant Thornton is that a proposed approach had been discussed that may satisfy audit requirements and avoid qualification. Further work to re-review the work previously carried out and reach a view on whether there is sufficient assurance for the purpose of the group accounts is being carried out and formal confirmation from Grant Thornton is awaited.

#### **Valuation of Specialist Assets**

- 2.8 In previous years the Council has used its in-house design team to value the 75 specialist properties that are included on the Council's balance sheet. Before the 2019/20 audit work could be completed, the Council disbanded its in-house design team as part of the 2020/21 interim budget arrangements. As a result, valuations were not undertaken and audit queries could not be answered.
- 2.9 Further enquiries revealed that supporting files and documentation could not be located and the only option available was for the Council to commission external valuers to carry out these valuations. This has been commissioned for a 3-year period covering the 2019/20 - 2021/22 accounts. Initial estimates are that the work for the 2019/20 accounts will be available no earlier than February/March 2022. As this work needs to be completed and then audited, it is unlikely that the accounts can be signed off before March 2022. We are currently liaising with the valuers to see if this can be accelerated however given the nature of the assets and the lack of documentation this is unlikely.
- 2.10 In response to the situation, the Council has:
  - undertaken a joint project between Property Services and Strategic Finance to consolidate operational buildings information to support the Council's asset valuations. A key objective being to hold a central copy of historic and current building related documents;
  - Requested all departments to send through any copies of floor plans and architects drawing for operational buildings on the asset register that they hold;

- Started a process to capture details of when major components in the building were last replaced and descriptions of any major works that have resulted in changes to the footprint of the property in the past 5 years, including extensions. Reconfigurations and partial demolitions are also being collated;
- Issued full instructions and all available data to the valuers and work is underway. Regular progress reports are to be provided so that Councillors and senior management can be updated;
- Instructed Internal Audit to review the decision to abolish the Design Services Team and will produce a report on lessons learned for the future.

### **2020/21 Statement of Accounts**

2.11 These two issues also impact on the 2020/21 Statement of Accounts:

#### **Robin Hood Energy**

2.12 Following the strategic review of Robin Hood Energy, the Council disposed of its interest in the company. As part of this process, the customer base has been sold and the company entered into administration on 5 January 2021. Although it was no longer under the control of the Council as at 31 March 2021, in compliance with IFRS 10, transactional data for RHE from 1 April 2020 to 4 January 2021 should be included in the Statement of Accounts.

2.13 The timeline for companies to submit their draft accounts to the Council was 16 June 2021 and avenues are being pursued to obtain accurate financial data up to the point of entering administration. However, no figures were available for consolidation into draft or final accounts. However, enhanced disclosures have been included within both the single entity and group accounts, the key headlines being:

- As at 31 March 2021, the Council's total balance of loans to RHE was £30.1m with £1.6m of loan principal repayments invoiced in 2020/21 (£7.5m was written off in 2019/20).
- RHE loans and outstanding balances were impaired by £13.4m during 2020/21.
- The financial guarantees which totalled £16.5m provided to RHE by the Council were wound down as trading ceased. Previously these had been provided to a level of 80% of RHE's liability to its wholesale energy suppliers to ensure that the company could cover advance purchases of energy.

2.14 There are also references to RHE in the Narrative Report and a contingent liability has been included. A briefing note was provided to Grant Thornton by the Head of Strategic Finance and Deputy S151 Officer to set out the approach taken by the Council in the absence of any financial information being available from RHE.

2.15 Work is currently underway to obtain the financial information from the administrators, Deloitte. As it currently stands there is a risk of qualification on the 2020/21 accounts as a result of this.

2.16 The completion of the audit and sign-off of the accounts is unlikely to be completed before March 2022 due to the need for the valuation work to be carried out and the indicative timeframes that the Council has received for this work to be completed.

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 None



**Audit Committee – 26<sup>th</sup> November 2021**

<b>Title of paper:</b>	Council Plan and Corporate Performance Assurance	
<b>Director(s)/ Corporate Director(s):</b>	Ita O'Donovan – Interim Director Strategy and Policy Clive Heaphy - Interim Corporate Director of Finance and Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Elaine Fox – Corporate Policy and Performance Officer; <a href="mailto:elaine.fox@nottinghamcity.gov.uk">elaine.fox@nottinghamcity.gov.uk</a>	
<b>Other colleagues who have provided input:</b>	James Schrodell – Corporate Policy and Performance Manager James Rhodes – Head of Analysis and Insight	
<b>Does this report contain any information that is exempt from publication?</b> No.		
<b>Recommendation(s):</b>		
<b>1.</b>	To note the progress made on the Council's new Performance Management Framework (PMF) to date.	
<b>2.</b>	To note plans for full implementation of the PMF and improvements in performance reporting across the Council.	
<b>3.</b>	To review the critical indicators for Finance and Resources (Appendix 1) and provide feedback on whether additions or amendments are required.	
<b>4.</b>	To consider whether the Audit Committee working group should meet separately with the Policy and Performance team for a more thorough review of the critical indicators.	

**1. Reasons for recommendations**

- 1.1 To assure Audit Committee of plans for improving the monitoring and reporting of performance across the City Council.

**2. Background**

- 2.1 As part of its Recovery and Improvement Plan, and in line with recommendations from the Improvement and Assurance Board, the Council is working to improve performance reporting across the authority, with a particular focus on corporate and political oversight of key performance metrics.
- 2.2 Full Council formally adopted a new Strategic Council Plan for 2021-2023 on 13<sup>th</sup> September 2021, the amended commitments will be incorporated into the new Performance Management Framework (PMF).
- 2.3 Formerly, quarterly corporate performance reporting to the Corporate Leadership Team (CLT) and the Executive focussed on commitments taken from the previous Council Plan, which were adopted from the majority group's Manifesto. Arrangements for the review of other performance data was not coordinated by the centre, but instead owned by each individual Directorate.

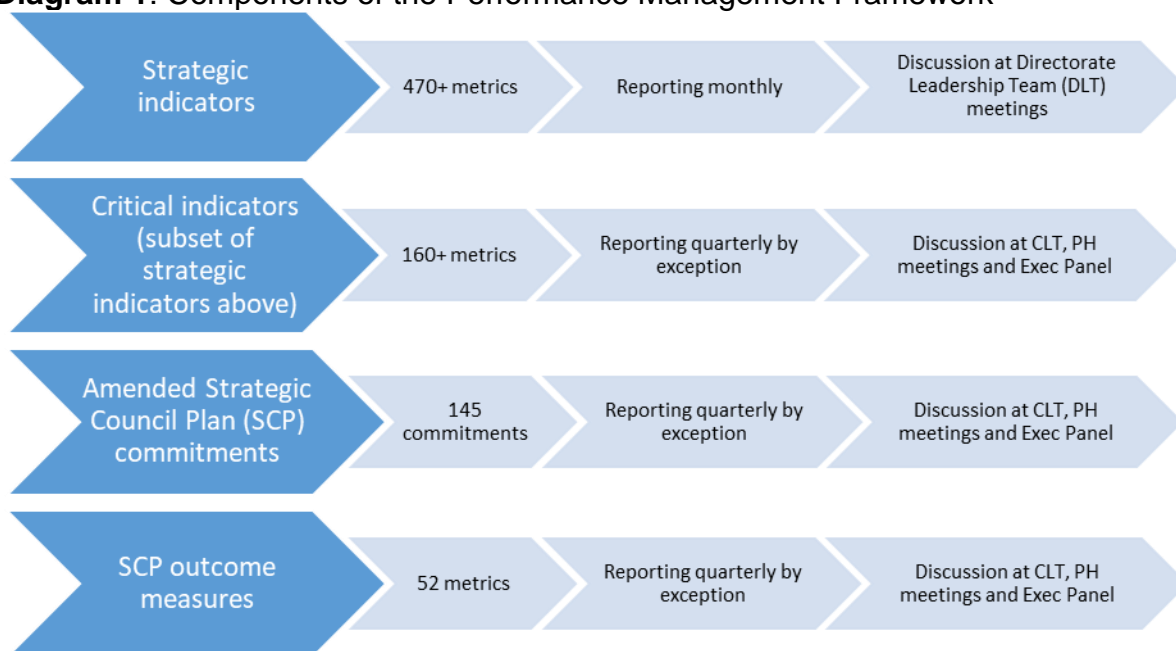
- 2.4 Going forward, the Corporate Policy and Performance Team will now coordinate reporting on both the Strategic Council Plan, and additional metrics outside of the Council Plan. These metrics have been proposed by Directors and Heads of Service to include a mix of statutory duties and strategic indicators that give the best overview of their key responsibilities, priorities and 'business as usual' work. This will better inform the Council's leadership of performance across key service areas.
3. **Changes and improvements – Council Plan and corporate performance assurance mechanisms**
- 3.1 Nottingham City Council has developed a new Performance Management Framework (PMF), with the following overarching aims:
- To improve the culture of performance reporting in Nottingham City Council.
  - To ensure performance is reported on and discussed regularly, accurately and honestly.
  - To change the culture of performance reporting so that it is seen as an asset which engenders accountability and can track progress towards meeting targets.
- 3.2 Performance reporting will be scheduled regularly at Directorate Leadership Team (DLT) meetings, CLT, Leadership Group and with Portfolio Holders. It will be given sufficient time for discussion. Conversations will be open and honest and will offer opportunities to take remedial action to achieve targets which are slipping or make decisions earlier about when to stop or change activity.
- 3.3 Within the PMF, targets and metrics will be:
- Relevant
  - Clearly owned in terms of accountable and responsible officers
  - Specific and measurable with clear definitions and target milestones/trajectories, or monitored to determine direction of travel
  - Appropriate indicators of the performance of a particular service or strategic outcome
  - Agreed in advance between officers and the Executive, with the option to review these if circumstances change significantly.
- 3.4 Reporting will be:
- Updated according to the 'frequency' agreed (which will vary by metric based on availability of data)
  - Accurate, giving an honest update on performance since the last report
  - Scheduled regularly at DLTs, CLT and Exec Panel (quarterly), so that performance is known and understood
  - Given sufficient time for discussion each quarter, including Strategic Council Plan commitments and strategic indicators.
- 3.5 Reporting will be captured through the Council's online performance management system, Pentana, linking into other sources of data where available. Reports will include a RAG (red, amber, green) rating for each indicator along with contextual narrative. Dashboards will also be available to allow regular, easy review of indicators, with the ability to filter by directorate and portfolio.
- 3.6 The PMF is a live document which can be revised, amended and edited at any point. This is necessary to ensure the PMF continues to include relevant indicators to reflect changing strategies, priorities and statutory duties. In addition to the metrics, the PMF

also incorporates the commitments within the Strategic Council Plan in order to ensure accountability of delivery. Diagram 1, below, offers a breakdown of the components of the PMF, the frequency of reporting and where they are reported.

3.7 The PMF is comprised of the following:

- Strategic indicators – including statutory duties – which will be reviewed monthly by Directorate Leadership Teams. Named officers will be responsible for providing data and commentary for these metrics; the frequency of reporting for each individual metric will depend on when relevant data is available.
- Critical indicators – a smaller subset of the strategic indicators, which will provide the Council’s senior leadership with a focussed, more manageable overview of performance. Performance against these critical indicators will be reported to the Corporate Leadership Team and the Executive on a quarterly basis by exception (where anything is RAG rated ‘red’ or ‘amber’).
- Amended Strategic Council Plan (SCP) commitments – these are the revised commitments from the Executive.
- SCP outcome measures – these are metrics we have committed to measure to assess if the 11 high level outcomes in the new Strategic Council Plan are being achieved.

**Diagram 1: Components of the Performance Management Framework**



3.8 Directorate leadership teams will review their available data each month, allowing any issues to be identified in a timely manner and giving an opportunity for remedial action to be considered where necessary. ‘Performance clinics’ will be established to give sufficient rigour, consistency and appropriate accountability to the performance management process; these ‘clinics’ will ensure time is dedicated to the robust review of indicators.

3.9 The link has been established between the PMF and the new performance appraisal system via service plans. Service plans outline the areas of responsibility for particular service areas in regards to the Strategic Council Plan. Thus we have identified which Directors and Heads of Service are responsible for all indicators and actions within the PMF, so these can be easily cascaded into individual performance objectives facilitating

regular discussions to ensure appropriate accountability and oversight as part of the appraisal process.

- 3.10 Discussions are also taking place with risk specialists within the Council to ensure that consideration of risk is included in the performance management process so that risk is evaluated, reported at the appropriate level and, where possible, mitigated. This will likely include the reporting of risk alongside performance as a part of the proposed monthly DLT performance sessions.
- 3.11 Performance reporting will first be discussed with Directorate Leadership Teams followed by a meeting of the Corporate Leadership Team (CLT) for review. After CLT it will then be shared with Portfolio Holders before final discussion at Exec Panel. This will give ample opportunity for review of RAG ratings and to consider any remedial actions which may be required.
- 3.12 Audit Committee's terms of reference include a requirement for members to seek assurance of the Council's financial and non-financial performance. The PMF includes indicators relating to the Council's finances, its workforce, its services and operations, a representative selection of its statutory duties and its key priorities. The new framework will be a tool to assist officers, Councillors and Audit Committee in gaining assurance that performance is being reported and monitored appropriately across all levels of the authority.
- 3.13 Appendix 1 includes a list of critical indicators relating to Finance and Resources which can be reported in the public domain (we have excluded from this list any indicators which may include any commercially or financially sensitive information, or where we do not own the data). We welcome Audit Committee's input in shaping these indicators where members feel anything needs to be added or amended. For a more in-depth review of the critical indicators in the PMF, including those in other directorates, the Policy and Performance team can liaise with the Audit Committee working group outside of the committee meeting as required.
- 3.14 Ongoing and detailed scrutiny of specific areas of performance will also take place at Overview and Scrutiny Committee in the form of contributions to policy development. Overview and Scrutiny may gather evidence at their meetings and, when that evidence shows there could be a better way of doing things, the committee can make recommendations for change and support improvement. The Chair of the Overview and Scrutiny Committee will also be provided with the quarterly performance monitoring reports, and will have the opportunity to raise any queries.
- 3.15 The Companies Governance Committee will oversee the Council's strategic objectives across the Nottingham City Council group of companies and support the development of the group, in line with the Council's regulations and ambitions.
- 3.16 We will operationalise the PMF (with an initial focus on critical indicators and the Strategic Council Plan commitments), including:
- Building reporting systems into Pentana with defined baselines, targets (where applicable), accountable officers, frequency of data availability and source etc.
  - Developing reporting dashboards so that CLT members, Councillors and senior officers can easily and quickly view their data in a user-friendly way.
  - Establishing data feeds from existing systems (automated where possible) to remove the need for duplication of data entry where available.

- Initiating corporate quarterly reporting to CLT, Leadership Group and Exec Panel (critical indicators and SCP commitments) from January 2022 (subject to sufficient capacity to populate the reporting system with the new and revised indicators). Reporting will cover quarter three of 2021/22 (1<sup>st</sup> October – 31<sup>st</sup> December 2021).
- Establishing a consistent approach to monthly Directorate performance clinics (including Terms of Reference and other documentation).

4. **Background papers other than published works or those disclosing exempt or confidential information**

4.1 None.

5. **Published documents referred to in compiling this report**

5.1 Nottingham City Council Plan 2019-2023

5.2 Nottingham City Council Strategic Council Plan 2021-2023

5.3 Nottingham City Council Recovery and Improvement Plan 2021-2024

This page is intentionally left blank

Key Metric / Output	Critical indicator?	Can this be reported in the public domain?
Accountability - Budget variance	Yes	Yes
Ability/Accuracy - Budget movement from previous period	Yes	Yes
Council Tax - collected in year relating to in year	Yes	Yes
Council Tax - previous years collection	Yes	Yes
Fairer charging - collection rates	Yes	Yes
Business Rates - collection rates	Yes	Yes
Indicators of financial Stress - Level of Reserves	Yes	Yes
Indicators of financial stress - Change in reserves level	Yes	Yes
Indicator of financial stress - unallocated reserves	Yes	Yes
Indicator of financial stress - earmarked reserves	Yes	Yes
Indicator of financial stress - fees and charges	Yes	Yes
Indicator of financial stress - council tax requirement	Yes	Yes
Indicator of financial stress - growth above baseline	Yes	Yes
Rent setting	Yes	Yes
Council Tax setting	Yes	Yes
Corporate monitoring - budget variance	Yes	Yes
Local Spend secured through procurement	Yes	Yes
Environmental benefits from procurement	Yes	Yes
Savings secured through procurement	Yes	Yes
Employment and Training opportunities created	Yes	Yes
Average resolution time - Disciplinarys - NCC	Yes	Yes
Average resolution time - Grievance - NCC	Yes	Yes
Days lost to sickness per FTE - NCC	Yes	Yes
Workforce Female %	Yes	Yes
Workforce BAME % of known	Yes	Yes
Workforce Disabled % of known	Yes	Yes
Workforce LGB % of known	Yes	Yes
Pay Gap - Gender	Yes	Yes

Pay Gap - Ethnicity	Yes	Yes
Pay Gap - Disability	Yes	Yes
Apprentices in post	Yes	Yes
Recruited representation: BAME	Yes	Yes
Recruited representation: Disabled	Yes	Yes
Recruited representation: Not heterosexual	Yes	Yes
Personal Information Requests closed within time	Yes	Yes
Freedom of Information Requests	Yes	Yes
Data Breach	Yes	Yes
GDPR mandatory training	Yes	Yes
Information Security Awareness mandatory training	Yes	Yes
Telephone Answer Rates	Yes	Yes
Complaints resolution	Yes	Yes
Local Government Ombudsman complaints upheld	Yes	Yes
Customer Satisfaction with Digital Services	Yes	Yes
Customer Satisfaction with contact with Council	Yes	Yes
Channel Shift to Digital	Yes	Yes
Increase in number of electronic forms submitted	Yes	Yes
Payments online as services move into Hub	Yes	Yes
Website quality and accessibility	Yes	Yes
Increase in number of Customer accounts	Yes	Yes



Directorate	Division	Service area (HoS level)	Service (brief description of areas covered if not self-explanatory)
Finance and Resources	Finance	Commercial Finance	Commercial Finance
Finance and Resources	Finance	Commercial Finance	Commercial Finance
Finance and Resources	Finance	Commercial Finance	Commercial Finance
Finance and Resources	Finance	Commercial Finance	Commercial Finance
Finance and Resources	Finance	Commercial Finance	Commercial Finance
Finance and Resources	Finance	Commercial Finance	Commercial Finance
Finance and Resources	Finance	Strategic Finance	Strategic Finance - Reserves
Finance and Resources	Finance	Strategic Finance	Strategic Finance - Reserves
Finance and Resources	Finance	Strategic Finance	Strategic Finance - Reserves
Finance and Resources	Finance	Strategic Finance	Strategic Finance - Reserves
Finance and Resources	Finance	Strategic Finance	Strategic Finance
Finance and Resources	Finance	Strategic Finance	Strategic Finance
Finance and Resources	Finance	Strategic Finance	Strategic Finance
Finance and Resources	Finance	Strategic Finance	Strategic Finance
Finance and Resources	Finance	Strategic Finance	Strategic Finance
Finance and Resources	Finance	Strategic Finance	Strategic Finance
Finance and Resources	Commissioning & Procurement	Contracting and Procurement	Procurement
Finance and Resources	Commissioning & Procurement	Contracting and Procurement	Procurement
Finance and Resources	Commissioning & Procurement	Contracting and Procurement	Procurement
Finance and Resources	Commissioning & Procurement	Contracting and Procurement	Procurement
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR

Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	HR & Customer	HR and Organisational Development	HR
Finance and Resources	Legal & Governance	Legal and Governance	Information Compliance / Data Protection / Information Security
Finance and Resources	Legal & Governance	Legal and Governance	Information Compliance / Data Protection / Information Security
Finance and Resources	Legal & Governance	Legal and Governance	Information Compliance / Data Protection / Information Security
Finance and Resources	Legal & Governance	Legal and Governance	Information Compliance / Data Protection / Information Security
Finance and Resources	Legal & Governance	Legal and Governance	Information Compliance / Data Protection / Information Security
Finance and Resources	Finance	Customer Services	Customer Hub
Finance and Resources	Finance	Customer Services	Have Your Say Team
Finance and Resources	Finance	Customer Services	Have Your Say Team
Finance and Resources	Finance	Customer Services	Customer Services
Finance and Resources	Finance	Customer Services	Customer Services
Finance and Resources	Finance	Customer Services	Digital Team
Finance and Resources	Finance	Customer Services	Digital Team
Finance and Resources	Finance	Customer Services	Digital Team
Finance and Resources	Finance	Customer Services	Digital Team
Finance and Resources	Finance	Customer Services	Digital Team

Audit Committee – 26<sup>th</sup> November 2021

<b>Title of paper:</b>	Internal Audit Update	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy – Interim Corporate Director of Finance & Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Shail Shah Head of Audit & Risk	
<b>Other colleagues who have provided input:</b>	None	
<b>Does this report contain any information that is exempt from publication? Yes</b> An appendix to the report is exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. It is not in the public interest to disclose this information because doing so may result in detriment to those financial and business affairs.		
<b>Recommendation(s):</b>		
<b>1.</b>	To note the progress reported in respect of high priority recommendations and determine any focus for intervention if considered necessary.	
<b>2.</b>	To note the areas marked as Limited Assurance and determine if necessary any intervention required.	

## 1. Reasons for recommendations

- 1.1 This report provides objective assurance that Nottingham City Council (NCC) activities meet their objectives. It brings together:
- a summary of final Internal Audit reports issued in 2020-21 and up to 31<sup>st</sup> August 2021,
  - tracking of completion of high priority recommendations by the service areas concerned.
- 1.2 The report enables Audit Committee to gain assurances and determine the focus for any interventions necessary.

## 2. Background

- 2.1 Internal Audit carries out a programme of audits each year including key financial systems, IT, governance etc. – this can include project or service audits or themed audits across the Council. In reporting its conclusions for these audits Internal Audit will recommend any actions it considers necessary to meet key objectives for the system, and aims to agree an action plan with the audit client.
- 2.2 Annexe A is a summary of the audits concluded in 2020-21 and Q1-2 2021-22 to 31 August 2021

- 2.3 Annexe B is tracked high priority recommendations reported in 2020-21 and Q1-2 2021-22 to 31 August 2021
- 2.4 Annexe C is executive summaries for audits identified in Annexes A & C
- 2.5 Annexe D sets out the definitions for assurance levels and recommendation categories
- 2.6 Annexe E is an exempt executive summary
- 2.7 Audit Committee's attention is required to ensure that improvement is achieved in a timely manner, and to identify where further support or direction is needed. In many instances the areas identified for improvement will underpin the ability to improve across NCC.
- 2.8 Internal Audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Public Sector Internal Audit Standards sets out the role of the Audit Committee in relation to Internal Audit and includes to receive reports from Internal Audit on significant risk exposures and control issues.
- 2.9 The Accounts & Audit Regulations 2015 Part 2 sets out that:
  - 5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
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 The Accounts & Audit Regulations 2015

## Annexe A – Summary of Audits concluded in 2020/21 & 2021/22 to 31Aug2021

Directorate	Division	Activity	Level of Assurance	DOT	High	Medium	Low
NCC Corporate	HR, Equalities, Diversity & Inclusion	Gifts & Hospitality 2020-21	Limited Assurance	↔	2	2	0
	Legal & Governance	Decision Making	Limited Assurance	-	3	0	0
<b>Corporate Total</b>					<b>5</b>	<b>2</b>	<b>0</b>
Finance & Resources	HR, Equalities, Diversity & Inclusion	Sickness Management	Limited Assurance	-	2	2	1
		Disciplinary Process follow-up	Limited Assurance	↑	2	5	0
		NCC Payroll and HR 2020-21	Moderate Assurance	↔	0	2	0
		Coronavirus Job Retention Scheme (Furlough)	Significant Assurance	-	0	0	2
	HR, Equalities, Diversity & Inclusion Total				4	9	3
	Strategic Finance	NCC Accounts Payable 2020-21	Significant Assurance	↔	0	0	0
		NCC Accounts Receivable 2020-21	Significant Assurance	↔	0	0	0
		Budget Monitoring 2020-21	Moderate Assurance	↓	0	1	0
		Bank Reconciliation 2020-21	Significant Assurance	↔	0	0	0
		Main Accounting 2020-21	Significant Assurance	↔	0	0	0
		Housing Benefit	Moderate Assurance	↑	3	1	1
		Council Tax 2020-21	Moderate Assurance	↓	0	10	1
		Business Rates 2020-21	Limited Assurance	↔	2	6	4
		Treasury Management 2020-21	Significant Assurance	↔	0	0	0
		PCI Compliance follow-up 2020-21	Limited Assurance	↓	4	8	1
		Capital Programme 2020-21	Moderate Assurance	↑	6	7	0
		LA Bus Subsidy Grant Claim	Grant Claim	-	0	0	0
		NPIF Grants Audit	Grant Claim	-	0	0	0
		Local Transport Capital Funding	Grant Claim	-	0	0	0

## Annexe A – Summary of Audits concluded in 2020/21 & 2021/22 to 31Aug2021

		Better Care Fund - DFG 2019-20	Grant Claim	-	0	0	0
		Future Transport Zones Fund	Grant Claim	-	0	0	0
		Travel Demand Management	Grant Claim	-	0	0	0
	Strategic Finance Total				15	33	7
	Strategy, Performance, Marketing & Comms	IT Change Management	Significant Assurance	↔	0	1	3
		IT - Service Desk	Significant Assurance	-	0	1	1
		Cloud-based Applications ( <i>Software as a Service</i> )	Moderate Assurance	-	4	8	0
		IT Security 2020-21	Limited Assurance	↔	6	11	0
		Performance Management 2019-20	Moderate Assurance	↔	1	3	0
	Strategy, Performance, Marketing & Comms Total				11	24	4
<b>Finance &amp; Resources Total</b>					<b>30</b>	<b>66</b>	<b>14</b>
Growth & City Development	Carbon Reduction, Sustainability & Energy	NCC Carbon Neutral Plan 2020-21	Limited Assurance	-	6	14	0
	Carbon Reduction, Sustainability & Energy Total				6	14	0
	Planning Regeneration & Housing	Housing Rents 2020-21	Moderate Assurance	↓	1	4	0
		Traffic Capital Projects 2020-21 follow Up	Limited Assurance	↔	6	1	0
	Planning Regeneration & Housing Total				7	5	0
	Economic Development & Property	Corporate Property Maintenance	Significant Assurance	↔	1	5	0
	Economic Development & Property Total				1	5	0
	Major Projects	Public Transport follow up	Limited Assurance	↑	10	3	0
		Public Transport Smart Ticketing Procurement follow-up	Limited Assurance	↑	3	0	0
		Transforming Cities Fund	Significant Assurance	-	0	0	0
	Major Projects Total				13	3	0
<b>Growth &amp; City Development Total</b>					<b>27</b>	<b>27</b>	<b>0</b>
Resident Services	Community Protection	Selective Licensing Scheme Follow-up 2020-21	Moderate Assurance	↑	4	5	1
		ECINS Application Review	Limited Assurance	-	8	9	0
	Community Protection Total				12	14	1
	Neighbourhood Services	Parks & Open Spaces Contracts	Moderate Assurance	-	0	6	3

## Annexe A – Summary of Audits concluded in 2020/21 & 2021/22 to 31Aug2021

		Governance & Use of Telematics	Significant Assurance	-	0	1	0	
	Neighbourhood Services Total				0	7	3	
<b>Resident Services Total</b>						<b>12</b>	<b>21</b>	<b>4</b>
People	Education Services	Nottingham Schools Trust Follow Up	Limited Assurance	↑	4	4	0	
	Education Total				4	4	0	
	Children's Integrated Services	Supporting Families ( <i>summary of controls opinion from quarterly grant claims</i> )	Significant Assurance	↔	0	0	0	
	Children's Integrated Services Total				0	0	0	
<b>People Total</b>						<b>4</b>	<b>4</b>	<b>0</b>
<b>Total Recommendations</b>						<b>78</b>	<b>120</b>	<b>18</b>

## Annexe B – Tracking of High Priority Recommendations Issued in 2020/21 & 2021/22 to 31Aug2021

Division	Activity	Level of Assurance	DOT	High	Audit Assessed			Management Assessed		Comment
					Complete	Not Yet Due	Overdue	Complete	Overdue	
NCC Corporate	Gifts & Hospitality 2020-21	Limited Assurance	↔	2			2	1	1	audit follow-up & management update
	Decision Making	Limited Assurance	-	3			3	1	2	audit follow-up & management update
<b>NCC Corporate Total</b>					5		5	2	3	
<b>Corporate Total</b>					<b>5</b>		<b>5</b>	<b>2</b>	<b>3</b>	
HR, Equalities, Diversity & Inclusion	Sickness Absence	Limited Assurance	-	2			2		2	management update
	Disciplinary Process follow-up	Limited Assurance	↑	2			2		2	audit follow-up & management update
	NCC Payroll and HR 2020-21	Moderate Assurance	↔	0			0		0	audit follow-up
	Coronavirus Job Retention Scheme (Furlough)	Significant Assurance	-	0			0		0	initial audit
<b>HR, Equalities, Diversity &amp; Inclusion Total</b>					<b>4</b>		<b>4</b>		<b>4</b>	
Finance	NCC Accounts Payable 2020-21	Significant Assurance	↔	0			0		0	audit follow-up
	NCC Accounts Receivable 2020-21	Significant Assurance	↔	0			0		0	audit follow-up
	Budget Monitoring 2020-21	Moderate Assurance	↓	0			0		0	audit follow-up
	Bank Reconciliation 2020-21	Significant Assurance	↔	0			0		0	audit follow-up
	Main Accounting 2020-21	Significant Assurance	↔	0			0		0	audit follow-up
	Housing Benefit	Moderate Assurance	↑	3	1		2		2	audit follow-up mgt update awaited
	Council Tax 2020-21	Moderate Assurance	↓	0			0		0	audit follow-up
	Business Rates 2020-21	Limited Assurance	↔	2			2		2	audit follow-up mgt update awaited



## Annexe B – Tracking of High Priority Recommendations Issued in 2020/21 & 2021/22 to 31Aug2021

Division	Activity	Level of Assurance	DOT	High	Audit Assessed			Management Assessed		Comment
					Complete	Not Yet Due	Overdue	Complete	Overdue	
	Treasury Management 2020-21	Significant Assurance	↔	0			0		0	audit follow-up
	PCI Compliance follow-up 2021-22	Limited Assurance	↓	4	1	1	2	NA	2	audit follow-up August 2021
	Capital Programme 2020-21	Moderate Assurance	↑	6	3	1	2	NA	2	audit follow-up August 2021
	LA Bus Subsidy Grant Claim	Grant Claim	-	0			0		0	
	NPIF Grants Audit	Grant Claim	-	0			0		0	
	Local Transport Capital Funding	Grant Claim	-	0			0		0	
	Better Care Fund - DFG 2019-20	Grant Claim	-	0			0		0	
	Future Transport Zones Fund	Grant Claim	-	0			0		0	
	Travel Demand Management	Grant Claim	-	0			0		0	
<b>Finance Total</b>				<b>15</b>	<b>5</b>	<b>2</b>	<b>8</b>		<b>8</b>	
Strategy, Performance, Marketing & Comms	IT Change Management	Significant Assurance	↔	0			0		0	audit follow-up
	IT - Service Desk	Significant Assurance	-	0			0		0	initial audit
	Management of cloud based applications (Software as a Service)	Moderate Assurance	-	4			4	3	1	audit follow-up & management update
	IT Security	Limited Assurance	↔	6			6	5	1	audit follow-up & management update
	NCC Performance Management	Moderate Assurance	↔	1			1	1	0	audit follow-up & management update
<b>Strategy, Performance, Marketing &amp; Comms Total</b>				<b>11</b>			<b>11</b>	<b>9</b>	<b>2</b>	
<b>Finance &amp; Resources Total</b>				<b>30</b>	<b>5</b>	<b>2</b>	<b>23</b>	<b>9</b>	<b>14</b>	
Carbon Reduction, Sustainability & Energy Services	NCC Carbon Neutral Plan 2020-21	Limited Assurance	-	6		1	5	1	4	initial audit & management update
<b>Carbon Reduction, Sustainability &amp; Energy Services Total</b>				<b>6</b>		<b>1</b>	<b>5</b>	<b>1</b>	<b>4</b>	
Planning Regeneration & Housing	Housing Rents 2020-21	Moderate Assurance	↓	1			1		1	audit follow-up & management update


## Annexe B – Tracking of High Priority Recommendations Issued in 2020/21 & 2021/22 to 31Aug2021

Division	Activity	Level of Assurance	DOT	High	Audit Assessed			Management Assessed		Comment
					Complete	Not Yet Due	Overdue	Complete	Overdue	
	Traffic & Safety Capital Projects follow up	Limited Assurance	↔	6		1	5	3	2	audit follow-up & management update
<b>Planning Regeneration &amp; Housing Total</b>				<b>7</b>		<b>1</b>	<b>6</b>	<b>3</b>	<b>3</b>	
Economic Development & Property	Corporate Property Maintenance	Significant Assurance	↑	1			1		1	audit follow-up & management update
<b>Economic Development &amp; Property Total</b>				<b>1</b>			<b>1</b>		<b>1</b>	
Major Projects	Public Transport follow up	Limited Assurance	↑	10	4		6		6	audit follow-up & management update
	Public Transport Smart Ticketing Procurement follow-up	Limited Assurance	↑	3	2		1	NA	1	audit follow-up Aug2021
	Transforming Cities Fund	Significant Assurance	-	0			0		0	
<b>Major Projects Total</b>				<b>13</b>	<b>6</b>		<b>7</b>		<b>7</b>	
<b>Growth &amp; City Development Total</b>				<b>27</b>	<b>6</b>	<b>2</b>	<b>19</b>	<b>4</b>	<b>15</b>	
Community Protection	Selective Licensing Scheme Follow-up 2020-21	Moderate Assurance	↑	4	2		2	2	0	audit follow-up & management update
	ECINS Application Review	Limited Assurance	-	8			8		8	audit follow-up & management update
<b>Community Protection Total</b>				<b>12</b>	<b>2</b>		<b>10</b>	<b>2</b>	<b>8</b>	
Neighbourhood Services	Parks & Open Spaces Contracts	Moderate Assurance	-	0			0		0	
	Governance & Use of Telematics	Significant Assurance	-	0			0		0	
<b>Neighbourhood Services Total</b>				<b>0</b>			<b>0</b>		<b>0</b>	
<b>Residents Services Total</b>				<b>12</b>	<b>2</b>		<b>10</b>	<b>2</b>	<b>8</b>	
Education Services	Nottingham Schools Trust Follow Up	Limited Assurance	↑	4	2		2	1	1	audit follow-up & management update
<b>Education Services Total</b>				<b>4</b>	<b>2</b>		<b>2</b>	<b>1</b>	<b>1</b>	

## Annexe B – Tracking of High Priority Recommendations Issued in 2020/21 & 2021/22 to 31Aug2021

Division	Activity	Level of Assurance	DOT	High	Audit Assessed			Management Assessed		Comment
					Complete	Not Yet Due	Overdue	Complete	Overdue	
Children's Integrated Services	Supporting Families ( <i>summary of controls opinion from quarterly grant claims</i> )	Significant Assurance	↔	0			0		0	
<b>Children's Integrated Services Total</b>				<b>0</b>			<b>0</b>		<b>0</b>	
<b>People Total</b>				<b>4</b>	<b>2</b>		<b>2</b>	<b>1</b>	<b>1</b>	
<b>Grand Total</b>				<b>78</b>	<b>15</b>	<b>4</b>	<b>59</b>	<b>18</b>	<b>41</b>	

**Annexe C – Audit Executive Summaries**  
**Gifts & Hospitality 2020/21**

Directorates: Finance & Resources and Growth & City Development Division: HR, Equalities, Diversity & Inclusion  Previous review: 2019-20	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: <b>No change</b> 
	Scope and Approach: This review considered the following in Development and Growth <ul style="list-style-type: none"> <li>• Awareness of the Code of Conduct for Employees and its requirements.</li> <li>• Completion of the required forms for declaring gifts and hospitality and declaration of interests.</li> <li>• Monitoring arrangements to ensure that the code is complied with.</li> </ul>	

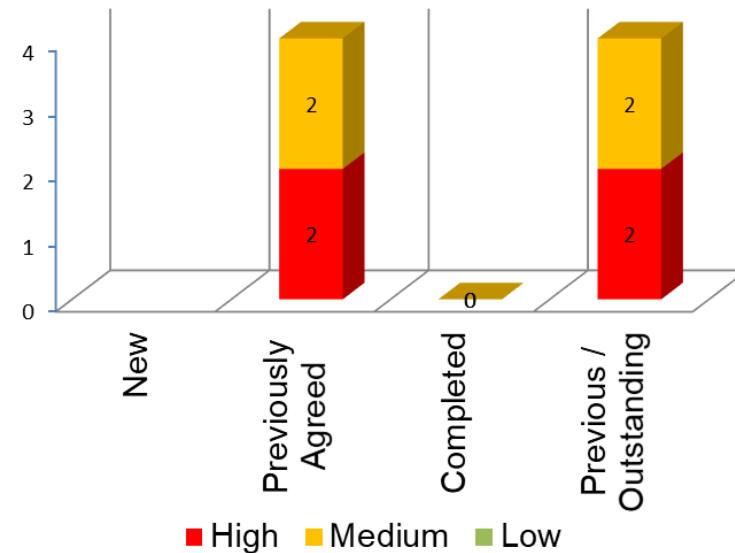
**High Priority Recommendations**

**Outstanding from previous audit**

2019/20 R1 - The G&H guidance should be reviewed and refreshed to ensure it is clear and in line with The Code.

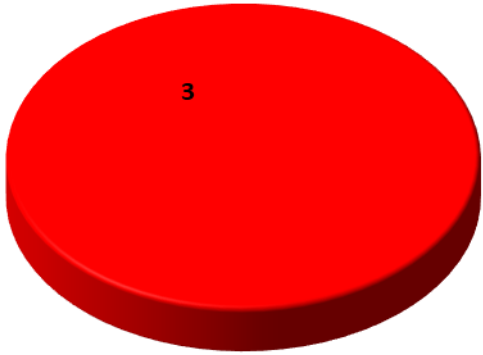
2019/20 R4 - An annual review of interests declared and G&H received during the year should be instituted by senior management.

**Summary of recommendations by priority**



## Annexe C – Audit Executive Summaries

### Decision Making

<p>Directorate: Council wide Division: Legal &amp; Governance</p> <p>Previous review: N/A</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>	<p>Direction of Travel: N/A</p>								
<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>• Decision making process</li> <li>• Guidance and training available for officers</li> <li>• Review of a sample of decisions to ensure information and advice provided in support was accurate, clear and complete.</li> </ul>										
<p><b>2020/21 High Priority Recommendations:</b></p> <p>R1 A wider assessment of the decision making process should be carried out as part of the Constitution Workstream.</p> <p>R2 A quality control check should be created within the decision making process to ensure supporting information is adequate.</p> <p>R3 Training offer should be mandatory and reviewed to ensure issues identified in this report are addressed.</p> <div data-bbox="1274 632 1995 1222" style="border: 1px solid black; padding: 10px;"> <p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  <table border="1" style="margin-top: 10px; width: 100%; text-align: center;"> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>3</td> </tr> <tr> <td>Medium</td> <td>0</td> </tr> <tr> <td>Low</td> <td>0</td> </tr> </tbody> </table> </div>			Priority	Count	High	3	Medium	0	Low	0
Priority	Count									
High	3									
Medium	0									
Low	0									

## Annexe C – Audit Executive Summaries

### Sickness Management

Directorate: Finance & Resources Division: HR, Equalities, Diversity & Inclusion	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: N/A - No previous audit
Previous review: N/A	<u>Scope and Approach:</u> This review considered the following aspects of the sickness absence management: <ul style="list-style-type: none"> <li>• communication of issued policies and procedures</li> <li>• absence management training and awareness</li> <li>• roles and responsibilities</li> <li>• sickness absence process</li> <li>• absence management monitoring and recording</li> <li>• organisational reporting and governance</li> </ul>	

#### High Priority Recommendations

2019-20 R2 HR should obtain management information on managers' receipt of absence management training and report it to corporate management for action which HR should track. This will ensure that managers are equipped to fulfil their role in relation to management of staff absence.

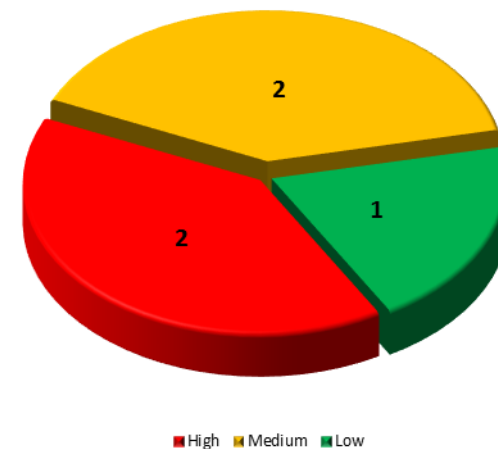
2019-20 R5 HR should ensure that Sickness Absence figures are:

- collated, reported and challenged at board level
- scrutinised by Councillors, Corporate Leadership Team, Departmental Management Teams, Health and Safety meetings to identify areas for improvement .

We are aware that sickness absence has been a core element of Covid-19 dashboard to leadership – it should continue as part of post-Covid-19 resumption of BAU. In addition, an annual report on the sickness absence should be produced and discussed at CLT and Audit Committee. This should include assurance reporting on KPIs


Sickness absence data should be used in a holistic way to ensure that the Council's objectives are met.

Summary of the recommendations by priority



## Annexe C – Audit Executive Summaries

### Disciplinary Process follow-up

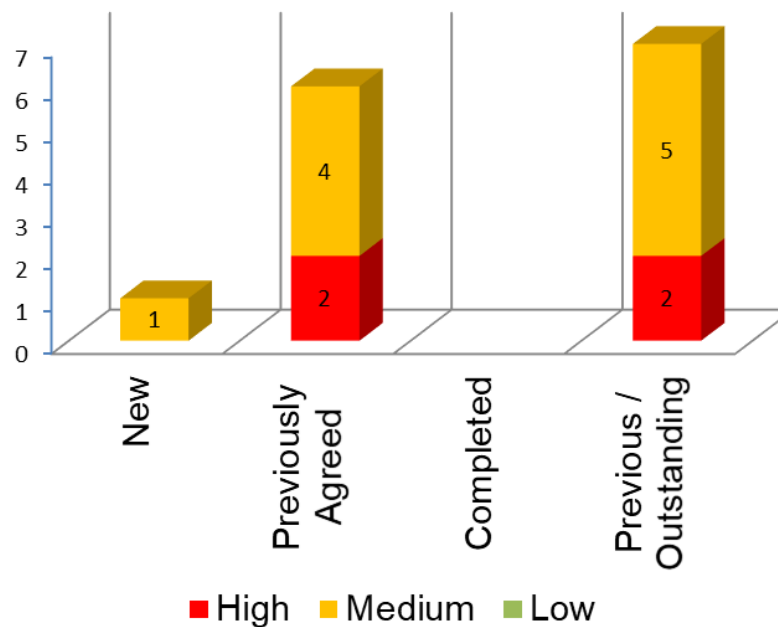
Department: Finance & Resources	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: <b>Improving</b> 
Previous review: Disciplinary Process 30 November 2020	<u>Scope and Approach:</u> <ul style="list-style-type: none"> <li>Follow up of the recommendations made in the 2020/21 report</li> </ul>	

#### High Priority Recommendations

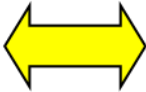
2019/20 R2 HR should ensure all case files are complete and adequately organised.

2019/20 R5 HR officers should undertake a greater role in providing quality control for all aspects of their allocated cases.

**Summary of recommendations by priority**

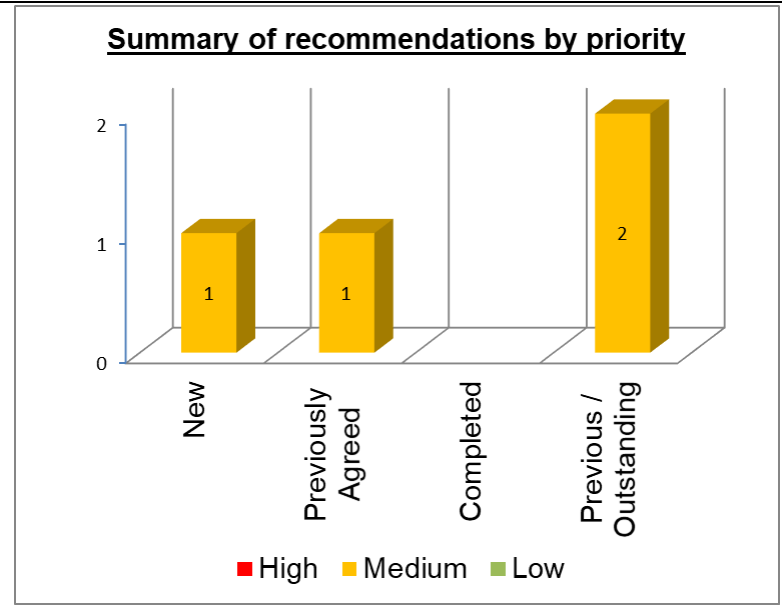


**Annexe C – Audit Executive Summaries**  
**Payroll & HR 2020/21**

<p>Directorate: Finance &amp; Resources          Division: HR, Equalities, Diversity &amp; Inclusion          Previous review: Annual Review, 20 April 2020.</p>	<p>Overall Opinion:  <b>Moderate Assurance</b></p>	<p>Direction of Travel:  <b>No change</b></p> 
<p><u>Scope and Approach:</u> This review considered the following aspects:</p> <ul style="list-style-type: none"> <li>• Notification of changes to ESC are accurate and timely</li> <li>• Periodic verification of establishment</li> </ul>		

**High Priority Recommendations**

No high recommendations





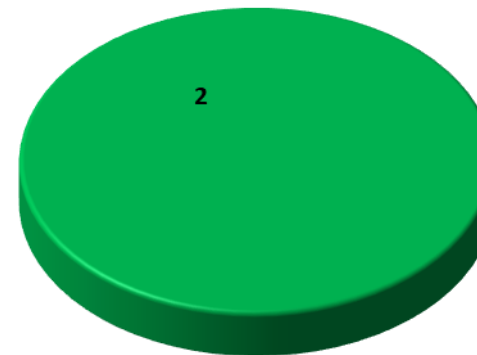
## Annexe C – Audit Executive Summaries Coronavirus Job Retention Scheme

Directorate: Finance & Resources Division: HR, Equalities, Diversity & Inclusion	Overall Opinion: <b>Significant Assurance</b>	Direction of Travel: No Previous Review
	<u>Scope and Approach:</u> This review considered the following: <ul style="list-style-type: none"> <li>❖ The decision making process for which employees are furloughed</li> <li>❖ The accuracy of the data underpinning the claim</li> <li>❖ The accuracy of the calculations made resulting in the claim</li> <li>❖ Assurances obtained throughout the process</li> </ul>	

### High Priority Recommendations


No high priority recommendations

Summary of the recommendations by priority



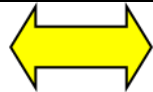
■ High ■ Medium ■ Low

**Annexe C – Audit Executive Summaries**  
**NCC Accounts Payable 2020-21**

<p>Directorate: Finance &amp; Resources          Division: Finance</p> <p>Previous review: Annual</p>	<p>Overall Opinion:  <b>Significant Assurance</b></p>	<p>Direction of Travel:  <b>No change</b> </p>
<p><u>Scope and Approach:</u> This review considered the following aspects of accounts payable:</p> <ul style="list-style-type: none"> <li>• Authorisation of payments</li> <li>• Invoices paid via CHAPS / BACS</li> <li>• Invoices on Hold</li> </ul>		
<p><b>High Priority Recommendations</b></p> <p>No recommendations</p>		

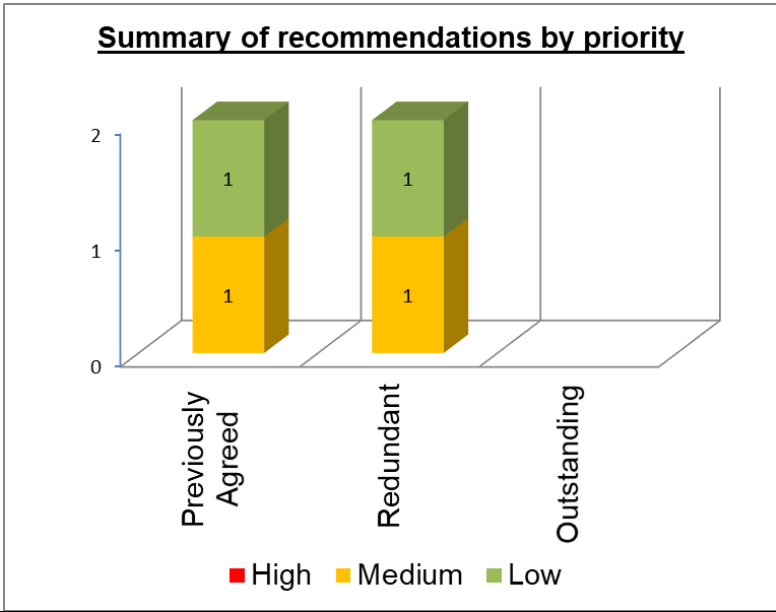
# Annexe C – Audit Executive Summaries

## Accounts Receivable 2020-21

Directorate: Finance & Resources Division: Finance	Overall Opinion: <b>Significant Assurance</b>	Direction of Travel:  <b>No Change</b>
Previous review: Accounts Receivable 2019-20 Accounts Receivable 2018-19 Accounts Receivable 2017-18	<u>Scope and Approach:</u> This review considered the following aspects: <ul style="list-style-type: none"> <li>• Review of documentation supporting the raising of invoices and credit notes</li> <li>• Review of the level of accounts receivable debt</li> <li>• Review of the write-off of unrecoverable debt</li> <li>• Review of unapplied / unallocated in suspense</li> <li>• Follow-up of outstanding recommendations from previous audit reviews</li> </ul>	


### High Priority Recommendations

No recommendations outstanding



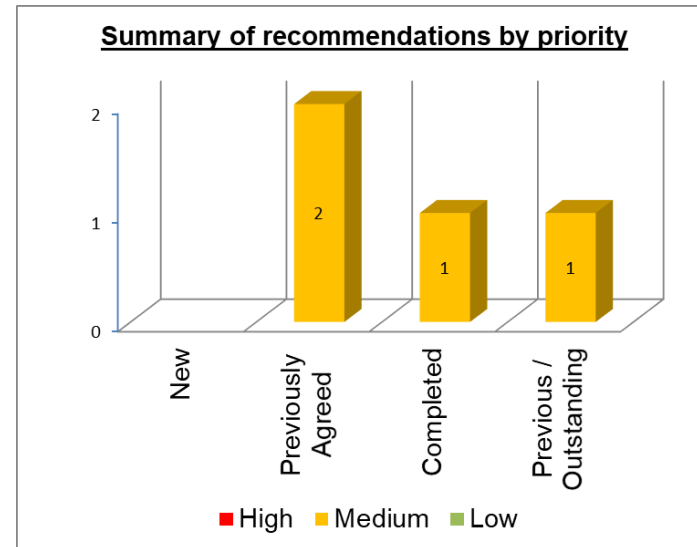
## Annexe C – Audit Executive Summaries

### Budget Monitoring 2020-21


<p>Directorate: Finance &amp; Resources Division: Finance</p> <p>Previous review: Budgetary Control 2019/20, 22 November 2019</p>	<p>Overall Opinion: <b>Moderate Assurance</b></p>	<p>Direction of Travel: <b>Deteriorating</b></p> 
<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>• Budget approval from Full Council</li> <li>• Loading of the approved budget onto Oracle</li> <li>• Budget monitoring process</li> <li>• Sample testing of virements for compliance with Financial Regulations</li> <li>• Follow up of previous recommendations</li> </ul>		

#### High Priority Recommendations


There are no high priority recommendations.



**Annexe C – Audit Executive Summaries**  
**Bank Reconciliation 2020/21**


Directorate: Finance & Resources, Finance	Overall Opinion: <b>Significant Assurance</b>	Direction of Travel: <b>No change</b> 
Previous review: Bank Reconciliation, 10 February 2020	<u>Scope and Approach:</u> <ul style="list-style-type: none"> <li>• The reconciliation of the General Bank Account, Oracle BACS, Oracle Cheques, NCC GDBC and CIVICA Paying in Slip Control</li> <li>• Management and review of automated income management system (CIVICA)</li> </ul>	
<b>High Priority Recommendations</b>  No recommendations are outstanding.		

**Annexe C – Audit Executive Summaries**  
**Main Accounting 2020/21**

<p>Directorate: Finance &amp; Resources          Division: Finance</p> <p>Previous review: 10<sup>th</sup> February 2020</p>	<p>Overall Opinion:  <b>Significant Assurance</b></p>	<p>Direction of Travel:  <b>No change</b></p> 
<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>• Carry forward and brought forward balances are able to be reconciled.</li> <li>• Ledger and interface integrity monitoring</li> <li>• Suspense and holding accounts are in place, regularly reviewed and cleared</li> <li>• Reconciliations are undertaken in a timely way</li> <li>• The processes operated for journal input.</li> </ul>		
<p><b>High Priority Recommendations</b></p> <p>No recommendations have been made.</p>		

# Annexe C – Audit Executive Summaries

## Housing Benefits 2020/21

<p>Directorate: Finance &amp; Resources                  Division: Finance                  Previous review:</p> <ul style="list-style-type: none"> <li>This is an annual audit</li> </ul>	<p>Overall Opinion:  <b>Moderate Assurance</b></p>	<p>Direction of Travel: </p> <p>The service has substantially eliminated the backlog of ATLAS files from the DWP needing further processing.</p>
<p><u>Scope and Approach:</u> This review considered the following aspects of the Benefits service:</p> <ul style="list-style-type: none"> <li>Subsidy Outturn, workload balance and quality control</li> <li>Reconciliations and payments process</li> <li>Parameter control process</li> <li>Review of previous recommendations.</li> </ul>		

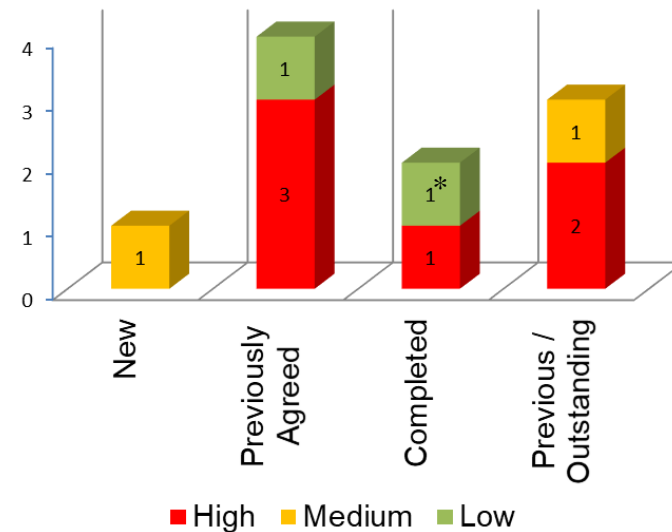
### High Priority Recommendations

2017-18 R3 Ensure that an additional NCC Client Team member has training to upload Atlas files to improve resilience for this key activity.


2017-18 R5 The Finance Team Leader – Contract Management should identify parameters which indicate cost benefit in deploying additional resources, and obtain authority to make those resources available where indicated so as not to lose subsidy (of a greater value). Structures and activities of local authorities whose subsidy claims are not qualified should be considered.

\* One Low priority recommendation determined to be redundant.

**Summary of recommendations by priority**



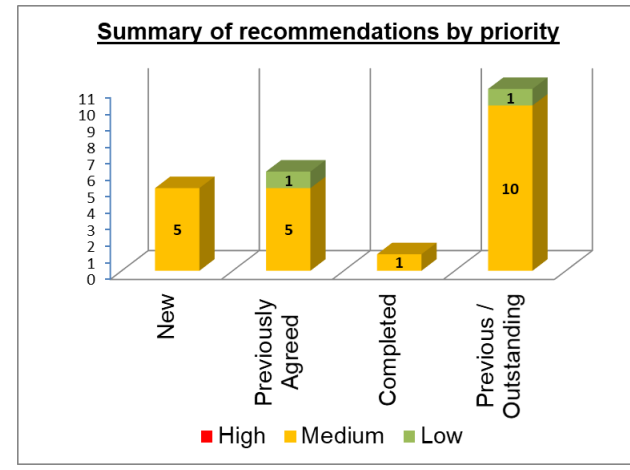
**Annexe C – Audit Executive Summaries**  
**Council Tax 2020/21**

<p>Directorate: Finance &amp; Resources          Division: Finance</p> <p>Previous review: May 2020</p>	<p>Overall Opinion:  <b>Moderate Assurance</b></p>	<p>Direction of Travel:  <b>Deteriorating</b></p> 
		<p><u>Scope and Approach:</u> This review considered the following aspects:</p> <ul style="list-style-type: none"> <li>❖ The 2019-2020 close-down process (including write-offs),</li> <li>❖ Transfer of balances between old &amp; new year</li> <li>❖ Opening debit for 2020-21.</li> <li>❖ Review the timetable for reviewing discounts and exemptions.</li> <li>❖ Review application of Covid -19 legislation.</li> <li>❖ Review of in year write-offs</li> <li>❖ Reconciliation of CTax to cash receipting and to the ledger</li> <li>❖ NRB contract management</li> </ul>

Page 48

**High Priority Recommendations**


None





## Annexe C – Audit Executive Summaries

### Business Rates 2020/21

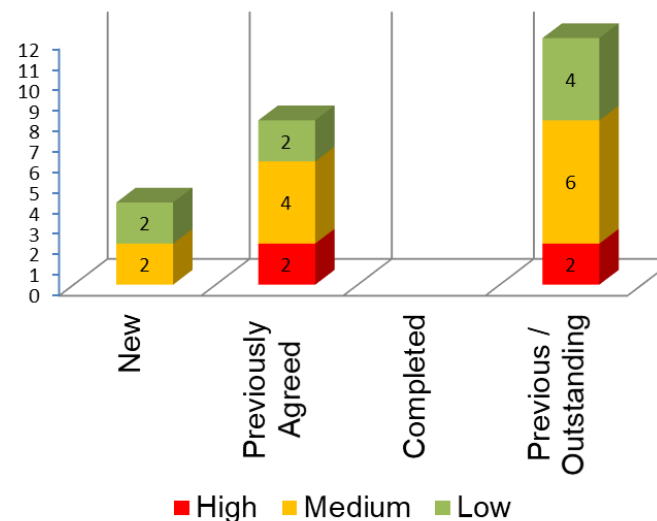
Directorate: Finance & Resources Division: Finance	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: <b>No change</b> 
Previous review: April 2020	<u>Scope and Approach:</u> This review considered the following aspects: <ul style="list-style-type: none"> <li>• The 2019-2020 close-down process (including write-offs),</li> <li>• Transfer of balances between old &amp; new year</li> <li>• Opening debit for 2020-21.</li> <li>• Review of the timetable for reviewing discounts and exemptions.</li> <li>• Review of the application of Covid -19 legislation.</li> <li>• Review of in year write-offs</li> <li>• Reconciliation to cash receipting and to the ledger</li> </ul>	

#### High Priority Recommendations


2019-20 R1 The Business Rates team should be adequately resourced to enable the Council to maximise Business Rates income and carry out BAU activities effectively.

2019-20 R2 An approved Policy should be introduced which should be used to determine all Discretionary Relief awards. All awards of reliefs should be supported by suitable documents.

**Summary of recommendations by priority**




**Annexe C – Audit Executive Summaries**  
**Treasury Management 2020-21**

<p>Directorate: Finance &amp; Resources          Division: Finance</p> <p>Previous review:          Treasury Management 2019/20</p>	<p>Overall Opinion:  <b>Significant Assurance</b></p>	<p>Direction of Travel:   <b>No change</b></p>
<p><u>Scope and Approach:</u> This review considered the following aspects of the system:</p> <ul style="list-style-type: none"> <li>❖ Treasury management complies with the legislation and CIPFA Code of Practice to include borrowing and lending activities</li> <li>❖ The existence of an agreed treasury management strategy that follows the CIPFA Treasury Management Code.</li> <li>❖ A review of current processes to ensure the Treasury Management Strategy is followed</li> <li>❖ A review of treasury management activities to ensure they are correctly recorded in the accounts</li> <li>❖ A review of the investment strategy including debt repayment</li> <li>❖ A review of prudential indicators and limits</li> <li>❖ A review of controls in place to ensure that investment opportunities are appropriately identified and a sound authorisation process is applied.</li> <li>❖ The existence and coverage of fidelity guarantees for all appropriate staff.</li> </ul>		
<p><b>High Priority Recommendations</b></p> <p>None</p> <p>No recommendations have been made as part of this audit</p>		

## Annexe C – Audit Executive Summaries

### PCI Compliance follow-up 2021-22

<p>Directorate: Finance and Resources Division: Finance</p> <p>Previous review: PCI Compliance 2015/16 PCI Compliance 2019/20 – Follow-up</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>	<p>Direction of Travel: Due to a number of factors the level of control in this area has reduced.</p> 
---	--	---

Scope and Approach: This review follow-up outstanding recommendations with regard to the Council’s compliance with the Payment Card Industry standards.

#### High Priority Recommendations

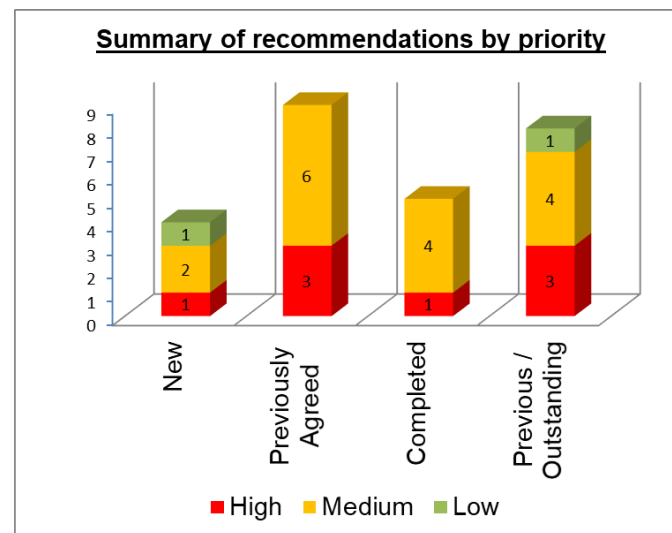
2021-22 R3 A checklist should be devised which pulls together the following areas to provide an level of assurance:

- Procurement – in terms of validations of PCI compliance where new systems have been procured.
- Contract managers where system already exist
- IT Services as to the ongoing security arrangements that support the Council’s IT Compliance
- The level of PCI Compliance, as determined by Income Management, including assurances concerning the completion of quarterly vulnerability scans and the resolution of any issues.

Upon completion the checklist should be signed by a responsible officer and formally presented to the Information Compliance Board and the Council’s Senior Information Risk Officer.


2018-19 R1 The City Council should set out its expectations as part of its Financial Regulations and IT Security Policy.

2015-16 R2 A firm proposal and business case should be developed to replace the existing arrangements with a more secure means of accepting payments over the telephone.



## Annexe C – Audit Executive Summaries

### Capital Programme 2020/21

Directorate: Finance & Resources Division: Finance Previous review: May 2020	Overall Opinion: <b>Moderate Assurance</b>	Direction of Travel: <b>Improving</b> 
--	---	--

**Scope and Approach:** This review covered the following aspects of the Capital Programme:-

- Follow up on previously raised recommendations.
- Review of capital programme elements included in the Recovery & Improvement Plan
- Capital Programme governance and programme controls
- Capital Strategy
- Review of the outcomes of capital scheme audits in 2020-21

#### High Priority Recommendations

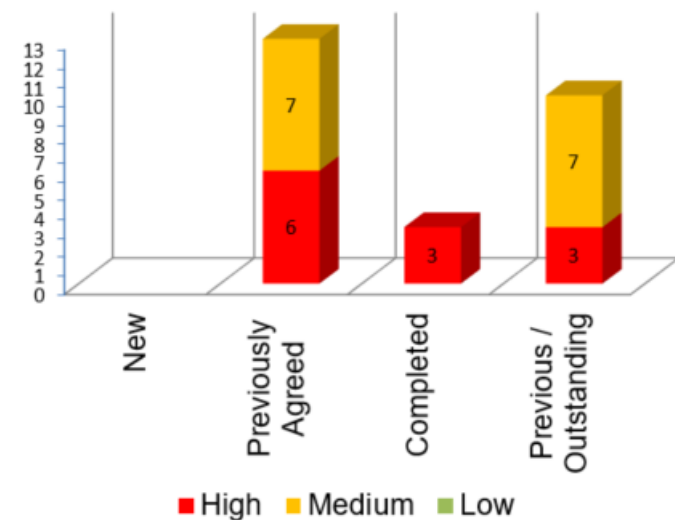
2018-19 R3 The Chief Finance Officer should ensure that an appropriate 'project assessment process' is in place for all capital projects to strengthen project management and assist in assessing value for money. The following should be considered:

- Adherence to the Capital Management Framework should be mandatory for all capital projects
- The Council should continue to develop, support and promote the Portfolio Management Office (PMO) approach that has been implemented to ensure that all projects are developed in a consistent, robust and well documented manner.
- Each service area/department within the capital monitoring framework should have a programme board to manage performance of their schemes within the capital programme
- There should be a close link between the programme boards and Finance
- Capital Gateway process should be designed to help more closely track the delivery of capital projects and ensure appropriate capital project management


2017/18 R2 Project Managers should regularly review their transactions and the total spend on the projects they manage. The Capital Team should review the process for reporting on capital spend against the programme at project level financial status and scheme progress. Failure to forecast or monitor should be highlighted to the relevant Corporate Director who under Financial Regulations (A15) has a responsibility for managing the approved schemes in accordance with the Capital Strategy. Continued failure should be highlighted to Executive Board.

2017/18 R4 The process of disposing of Council assets should be outlined to ensure consistency and compliance. A Disposal Policy should be created and approved.

**Summary of recommendations by priority**

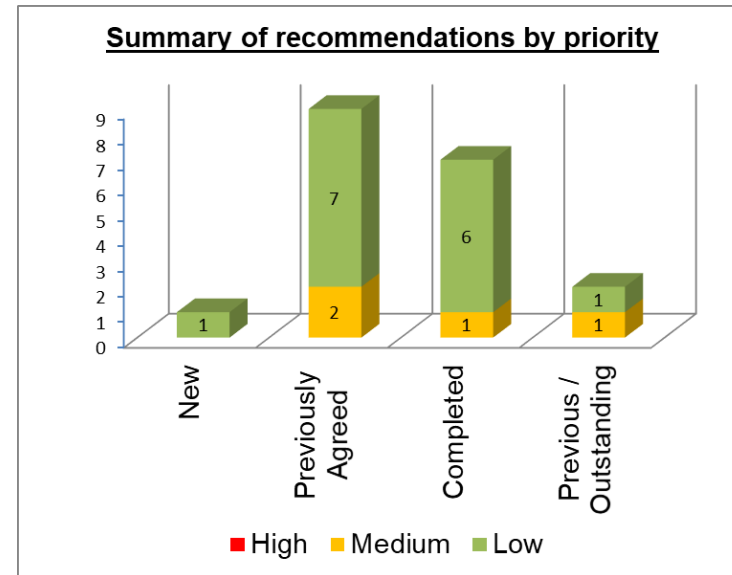


## Annexe C – Audit Executive Summaries IT Change Management

<p>Directorate: Finance &amp; Resources</p> <p>Division: Strategy, Performance, Marketing &amp; Comms</p> <p>Previous review: IT Change Management – June 2017</p>	<p>Overall Opinion:</p> <p><b>Significant Assurance</b></p>	<p>Direction of Travel: </p> <p>The level of control over the change process is being maintained and therefore no cause for concern.</p>
<p><u>Scope and Approach:</u> This review considered the processes and controls with the IT Change Management process to ensure that changes are appropriately reviewed and approved.</p>		

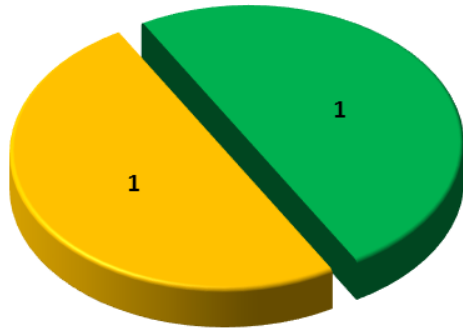
### High Priority Recommendations

There are no high priority recommendations.



## Annexe C – Audit Executive Summaries

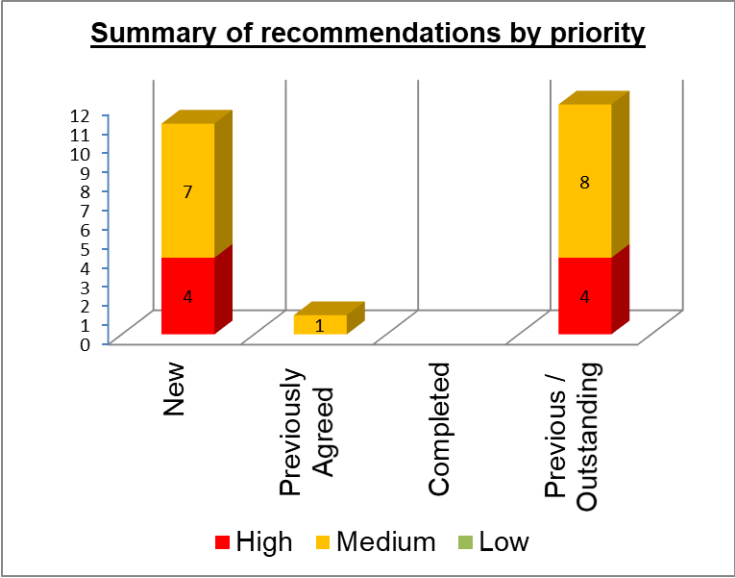
### IT Service Desk

<p>Directorate: Finance &amp; Resources          Division: Strategy, Performance, Marketing &amp; Comms</p> <p>Previous review:</p>	<p>Overall Opinion:  <b>Significant Assurance</b></p>	<p>Direction of Travel:          This is the first review within this area</p>								
<p><u>Scope and Approach:</u> The scope of the audit will involve the review of the following:-</p> <ul style="list-style-type: none"> <li>❖ The performance reporting and governance arrangements</li> <li>❖ Analysis of Service Desk data to validate the performance data</li> </ul>										
<p><b>High Priority Recommendations-</b></p> <p>There are no high priority recommendations</p> <div data-bbox="1272 528 1980 1075" style="border: 1px solid black; padding: 10px; margin: 20px auto; width: fit-content;"> <p style="text-align: center;"><b><u>Summary of the recommendations by priority</u></b></p>  <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <caption>Summary of the recommendations by priority</caption> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>1</td> </tr> <tr> <td>Medium</td> <td>1</td> </tr> <tr> <td>Low</td> <td>1</td> </tr> </tbody> </table> </div>			Priority	Count	High	1	Medium	1	Low	1
Priority	Count									
High	1									
Medium	1									
Low	1									

## Annexe C – Audit Executive Summaries


### Cloud-based Applications

<p>Directorate: Finance &amp; Resources Division: Strategy, Performance, Marketing &amp; Comms</p> <p>Previous review: Related audit: 2019/20 – Data Protection (Information Compliance) follow-up report (2016-17 R4 followed up again as part of this review)</p>	<p>Overall Opinion: <b>Moderate Assurance</b></p>	<p>Direction of Travel: This area has not been previously been reviewed.</p>
<p><u>Scope and Approach:</u> This review considered the use of cloud-based services across the council to ensure that the information security and the associated governance risks were being addressed.</p>		
<p><b>High Priority Recommendations</b></p> <p>2019-20 R1 The council should have clear policies and processes that govern the on-going investment and management of IT applications.</p> <p>The policies and procedures should include:</p> <ol style="list-style-type: none"> <li>1) An up to date IT Strategy and</li> <li>2) An IT investment plan, which takes into account the principles of Cloud Smart and the lifecycle of the current applications.</li> </ol> <p>2019-20 R5 A comprehensive asset register should be compiled to ensure that there is a clear accountability for all the assets owned and managed by the City Council.</p> <p>The register should include all applications, their owners, location and level of residual risk.</p> <p>In addition, the register should be linked to the completed DPIA's, ISRA's and contracts register in order that a complete record is available and appropriate assurances provided to management.</p> <p>2019-20 R7 IT costs should be reviewed and where found to have been incorrectly allocated, corrected to ensure that the Council's financial records are accurate and complete.</p> <p>2019-20 R8 Budget holders should be instructed as to the correct codes to be used when procuring IT applications and renewing licence agreements.</p>		



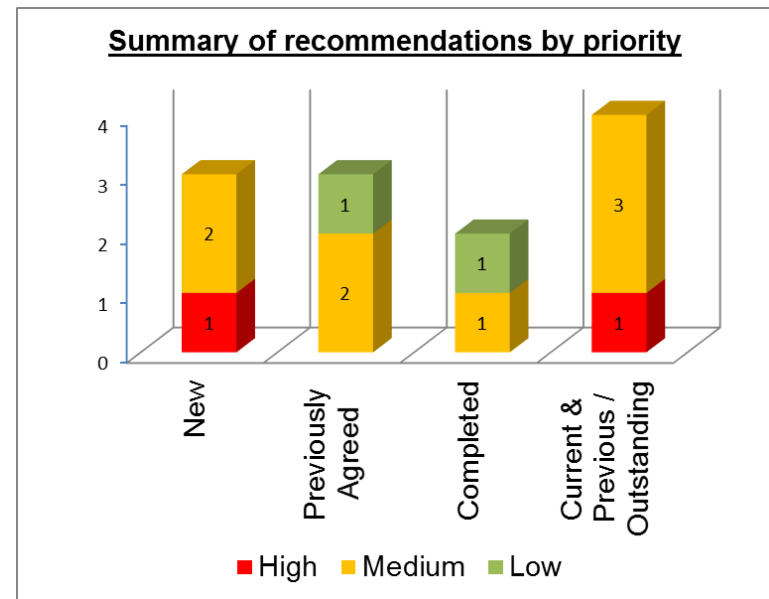
## Annexe C – Audit Executive Summaries

### Performance Management 2019/20

<p>Directorate: Finance &amp; Resources</p> <p>Division: Strategy, Performance, Marketing &amp; Comms</p> <p>Previous review: April 2019</p>	<p>Overall Opinion:</p> <p><b>Moderate Assurance</b></p>	<p>Direction of Travel:</p> <p><b>No change</b></p> 
<p><u>Scope and Approach:</u> This review considered the following aspects of Performance Management:</p> <ul style="list-style-type: none"> <li>• Specification of Corporate Plan and links to targets, actions, definitions, baselines and milestones, accountability and responsibility</li> <li>• Arrangements for reporting progress on the Corporate Plan</li> </ul>		

#### High Priority Recommendations

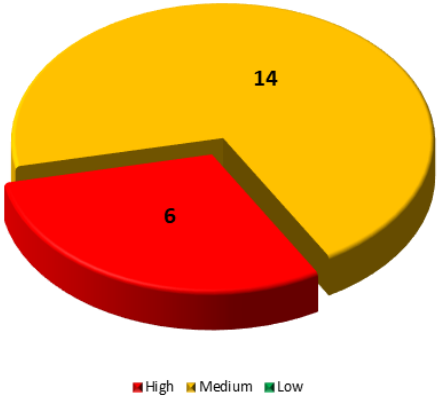
R3 The Council Plan and PMF should be reconsidered to reflect the fundamental changes to priorities and resources arising from the Covid-19 emergency.





## Annexe C – Audit Executive Summaries

### Carbon Neutral Plan 2020-21

Directorate: Growth & City Development Division: Carbon Reduction, Sustainability & Energy Services	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: <b>N/A</b>								
Previous review: This is the first review of this area	<u>Scope and Approach:</u> The scope of the audit will involve the review of the following:- <ul style="list-style-type: none"> <li>❖ Carbon Neutral plan including             <ul style="list-style-type: none"> <li>○ Associated risk register(s)</li> <li>○ Alignment with Council Plan</li> <li>○ Alignment with best practice</li> <li>○ Assurances</li> <li>○ Procedures, governance and resources</li> </ul> </li> </ul>									
<b>High Priority Recommendations</b>										
<p>R1 The Consultation on the Draft Carbon Neutral Action Plan should be reported on the Engage Hub of the NCC website.</p> <p>R2 The Carbon Neutral Action Plan 2020-28 should include milestones and measurable targets against which progress can be assessed.</p> <p>R4 It is vital that all decisions taken by the City Council are assessment for their impact on achieving Carbon Neutral Status as a matter of first importance.</p> <p>R5 The mandatory Licensing schemes for HMO's should be amended to reflect the Carbon Neutral Plan and the UK Government aim of properties having a minimum 'C' rating by 2030, subject to legal considerations.</p> <p>R9 The Council should develop indicative programmes to upgrade HRA and private sector housing in Nottingham to the desired energy efficiency standards.</p>	<p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>6</td> </tr> <tr> <td>Medium</td> <td>14</td> </tr> <tr> <td>Low</td> <td>1</td> </tr> </tbody> </table>		Priority	Count	High	6	Medium	14	Low	1
Priority	Count									
High	6									
Medium	14									
Low	1									
<p>R10 Determine future arrangements for heat and energy supply to the customers of Enviroenergy and if this is to include continuing the existing supply of heat and energy by Enviroenergy ensure the following:</p> <ul style="list-style-type: none"> <li>• Restructure of NCC relationship with EnviroEnergy to ensure that it is a going concern and able to deliver the heat and electricity to the District energy and heat networks beyond the immediate future.</li> <li>• Put in place an agreement to fund and secure ongoing short to medium term supply from heat station.</li> <li>• Renewal of the District Heating Scheme Agreement and development of the 3rd Line for the medium to long term.</li> </ul>										

# Annexe C – Audit Executive Summaries

## Housing Rents 2020/21

Directorate: Growth & City Development  
 Division: Planning Regeneration & Housing

Previous review - Housing Rents 2019/20

Overall Opinion:

**Moderate Assurance**

Direction of Travel:

**Deteriorating**



Scope and Approach: This review considered the following aspects of the rents system:

- Annual rents are approved as part of the financial planning process
- Current rents and policies support future spending forecast
- Housing stock is reconciled on an annual basis
- Rent income collected through the Radius system and posted onto the general ledger is reconciled to rent income received on the housing rents module of the Housing system.
- There is a weekly reconciliation between HB system, Housing Rents iWorld and General Ledger
- Low or nil rent properties on the HRA are reviewed on at least an annual basis for appropriateness
- There is adequate performance management of void properties
- Appropriate access controls to the Northgate Housing System
- Follow Up on previously raised recommendations

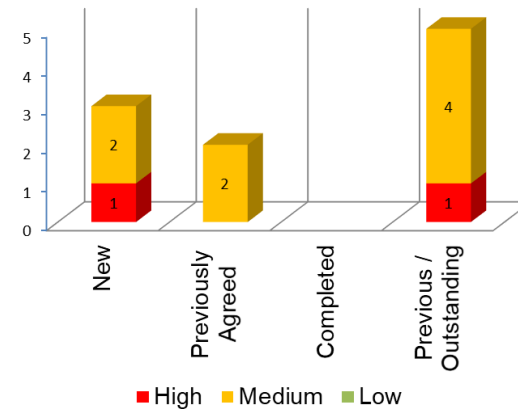
### High Priority Recommendations

2020-21 R3 Alternative arrangements should be available to maintain reconciliations where a colleague is absent.

A process for assurance to be provided to the system owner of status and last date reconciled for key reconciliations should be introduced.

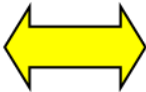
This should ensure that reconciliations are carried out in a timely way and that the system is operating effectively and as intended.

**Summary of recommendations by priority**



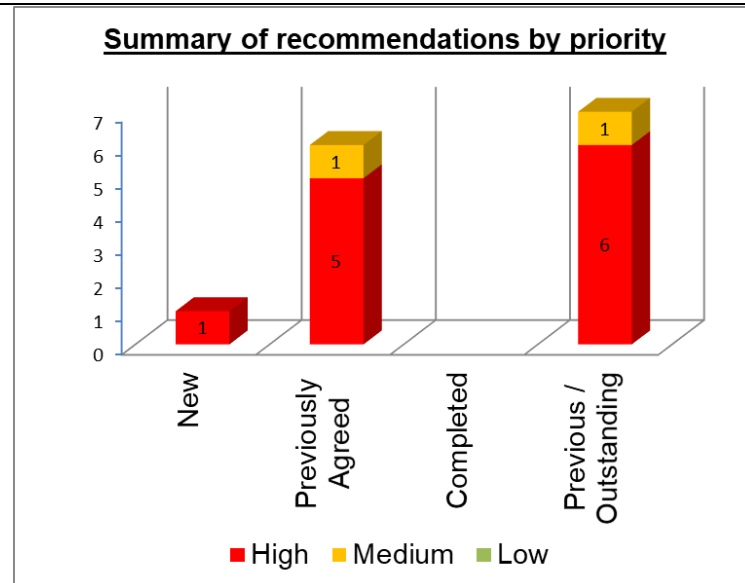
## Annexe C – Audit Executive Summaries

### Traffic Capital Projects 2020/21 Follow-Up

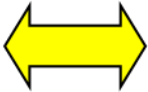
Directorate: Growth & City Development Division: Planning Regeneration & Housing  Previous review: April 2019	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel:  Planned improvements have not been embedded
<u>Scope and Approach:</u> This review considered whether the processes outlined in the previous audit follow-up report had been embedded <ul style="list-style-type: none"> <li>Traffic capital projects</li> </ul>		

#### High Priority Recommendations

- 2020-21 R1 The Head of Traffic should set out steps to resolve the issue of trust and improve transparency and effectiveness
- 2017-18 R3 Standardisation and transparency of capital estimates should be defined and followed. The level of service and the price of a project should be defined and agreed by all parties at the feasibility stage. All parties should be held accountable to the SLA.
- 2017-18 R6 A more effective way of monitoring and reporting of risk management should be established
- 2017-18 R7 Reporting requirements and responsibilities should be determined and followed.
- 2017-18 R8 A process of quality checks should be embedded into the Traffic and Safety project management.
- 2017-18 R9-12 combined •[R9]Project Managers should receive training on the use of Oracle Project Module. This should enable them to track the expenditures effectively and to act accordingly when required.
- [R10]Project Managers should be aware of the charges made against their codes.
  - [R11]Project Managers should be aware of the total spend on their projects. They should take full accountability for the projects managed.
  - [R12]Traffic and Safety should develop better ways of audit trail on Oracle to ensure that capital codes can be verified with the revenue codes and to ensure that the total declared cost can be verified with the capital codes. There should be a clear link on Oracle between the capital and revenue codes. Budget monitoring processes should be established and followed by all Project Managers.



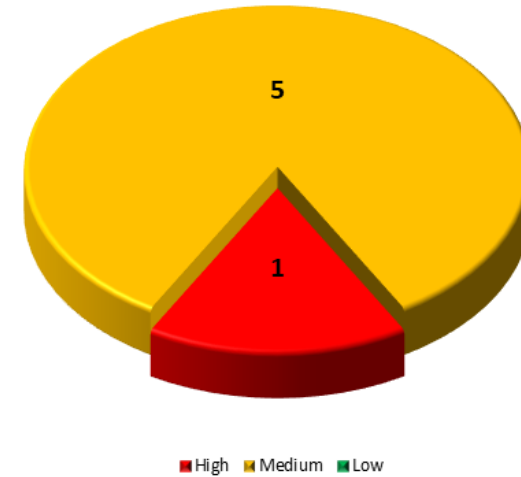
**Annexe C – Audit Executive Summaries**  
**Corporate Maintenance 2019/20**

<p>Directorate: Growth &amp; City Development          Division: Economic Development &amp; Property</p> <p>Previous review:          Repairs &amp; Maintenance Follow Up July 2017</p>	<p>Overall Opinion:  <b>Significant Assurance</b></p>	<p>Direction of Travel:  <b>No change</b></p> 
<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>• Procurement of contractors</li> <li>• Service Asset Management Plans and Forward Maintenance Plan</li> <li>• Condition Surveys</li> <li>• Testing of sample of repair and maintenance jobs</li> <li>• Reporting</li> </ul>		

**High Priority Recommendations**


2019/20 R3 Senior management should consider the level of service required to provide VFM and the consequences if these are not met.

Summary of the recommendations by priority

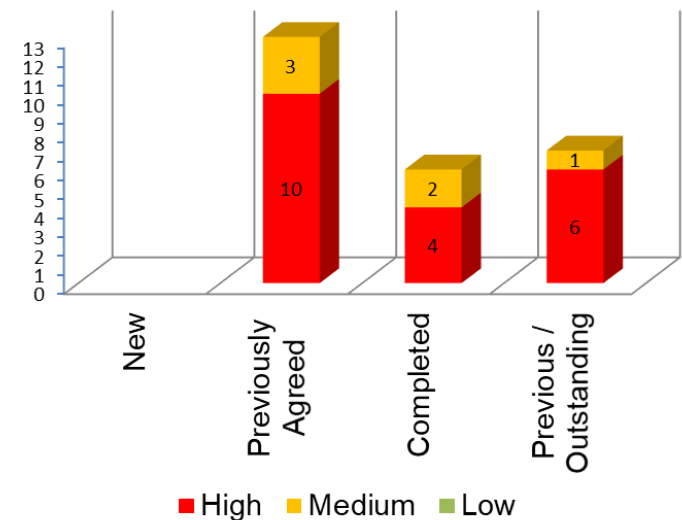


## Annexe C – Audit Executive Summaries

### Public Transport – Follow-Up

<p>Directorate: Growth &amp; City Development Division: Major Projects</p> <p>Previous reviews: Public Transport 2018/19, 28 September 2018</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>	<p>Direction of Travel: <b>Improving</b></p> 
<p><u>Scope and Approach:</u> Follow up of the recommendations in the 2018/19 Public Transport audit report.</p>		
<p><b>High Priority Recommendations:</b></p> <p><b>Tendered services:</b></p> <p>2018/19 R2 Link services should be reviewed and a timetable created with Procurement to ensure tendering exercises take place for all routes.</p> <p><b>Concessionary Card Scheme:</b></p> <p>2018/19 R5 The team should work to improve independent reporting and routinely use this to evaluate and monitor operator information received.</p> <p><b>Robin Hood Scheme:</b></p> <p>2018/19 R8 The team should work with operators to finalise the agreement as soon as possible.</p> <p>2018/19 R10 Written instructions for key tasks should be created.</p> <p>2018/19 R11 Additional staff should be trained to provide cover, support and review of key tasks.</p> <p>2018/19 R13 An NCC risk register should be created for the scheme and reviewed and reported on a regular basis to senior management.</p>		

**Summary of recommendations by priority**



## Annexe C – Audit Executive Summaries

### Public Transport Smart Ticketing Procurement follow-up

Directorate: Growth & City Development Division: Major Projects Previous review: Public Transport Smart Ticketing Team Procurement 2019/20	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel:  <b>Improving</b>
--	--	--

Scope and Approach: This review considered the following aspect:

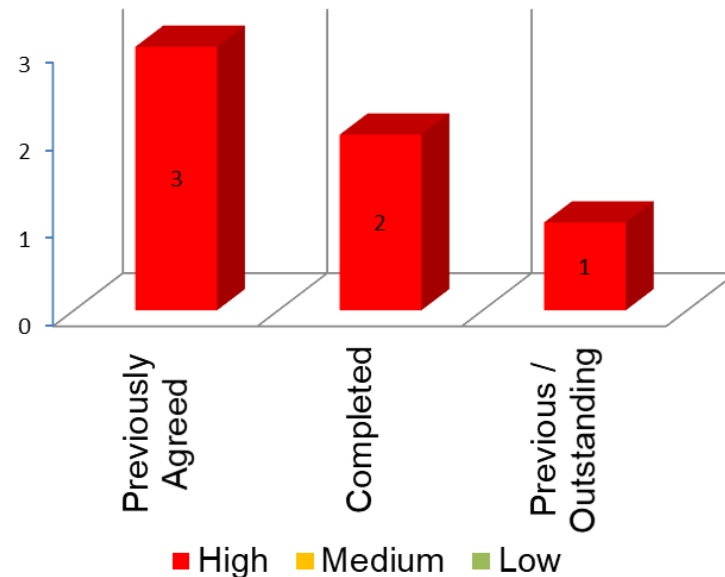
- Follow up of Internal Audit Report Public Transport Smart Ticketing Team Procurement

#### High Priority Recommendations

2019/20 R2 - Management implement the following:

- Obtain some clarity about the support and maintenance services that are required by the service, which should be rolled together and specified for the purposes of future market testing

**Summary of recommendations by priority**


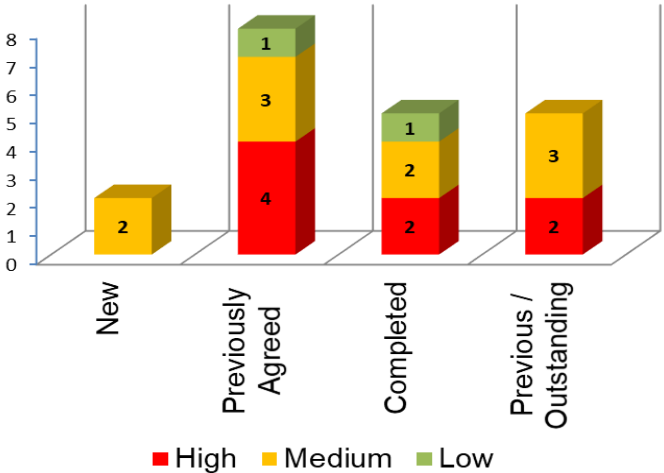


**Annexe C – Audit Executive Summaries**  
**Transforming Cities Fund**

<p>Directorate: Growth &amp; City Development          Division: Major Projects</p> <p>Previous review: This area has not previously be audited</p>	<p>Overall Opinion:  <b>Significant Assurance</b></p>	<p>Direction of Travel:  <b>N/A</b></p>
<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> <li>❖ Governance</li> <li>❖ Resourcing</li> <li>❖ Reporting mechanisms</li> <li>❖ Delivery planning</li> <li>❖ Finance and budget control</li> <li>❖ Sources of assurance</li> <li>❖ Monitoring and evaluation</li> </ul>		
<p><b>High Priority Recommendations</b></p> <p>No recommendations have been made.</p>		

## Annexe C – Audit Executive Summaries

### Selective Licensing Scheme follow-up 2020-21

<p>Directorate: Residents Services Division: Community Protection</p> <p>Previous reviews: February 2019, May 2020</p>	<p>Overall Opinion: <b>Moderate Assurance</b></p>	<p>Direction of Travel: <b>Improving</b></p> 																				
<p><u>Scope and Approach:</u> A follow-up review incorporating</p> <ul style="list-style-type: none"> <li>• Business case/business plan/action plan and surrounding documentation (including risk register &amp; Equalities Impact Assessment) and any reviews including PAG assessment</li> <li>• Monitoring against the business plan including any identified bottlenecks or issues</li> <li>• Policies, procedures and processes</li> <li>• Roles, responsibilities and competencies to ensure are adequate</li> <li>• Management information / Assurance</li> <li>• Budgetary control</li> </ul>																						
<p>High Priority Recommendations</p> <p>2018-19 R2 The performance and assurance framework should be defined and documented to include the factors outlined in R1, and should be regularly monitored and reported accordingly. Evidence of this should be maintained. Actions arising from monitoring should be allocated to owners, with target date, and progress tracked</p> <p>2018-19 R4 Operational performance specifications should be set and monitored, for</p> <ul style="list-style-type: none"> <li>• Processes for monitoring and progressing enforcement</li> <li>• Workload and activity targets for <ul style="list-style-type: none"> <li>○ Enforcement</li> <li>○ Inspection</li> </ul> </li> </ul> <p>(Additional to R4 in 20-21) Focus should be applied to inspection targets and outcomes, and proactive enforcement to achieve inspection rate throughout the scheme.</p>	<p><b>Summary of recommendations by priority</b></p>  <table border="1"> <caption>Summary of recommendations by priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>0</td> <td>2</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>4</td> <td>3</td> <td>1</td> </tr> <tr> <td>Completed</td> <td>2</td> <td>2</td> <td>1</td> </tr> <tr> <td>Previous / Outstanding</td> <td>2</td> <td>3</td> <td>0</td> </tr> </tbody> </table>		Category	High	Medium	Low	New	0	2	0	Previously Agreed	4	3	1	Completed	2	2	1	Previous / Outstanding	2	3	0
Category	High	Medium	Low																			
New	0	2	0																			
Previously Agreed	4	3	1																			
Completed	2	2	1																			
Previous / Outstanding	2	3	0																			



## Annexe C – Audit Executive Summaries

### ECINS Application Review

<p>Directorates: Residents Services and People Division: Community Protection</p> <p>Previous review: None</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>	<p>Direction of Travel: This review has not been previously undertaken</p>
<p><u>Scope and Approach:</u> The scope of the audit will encompassed the following:-</p> <ul style="list-style-type: none"> <li>❖ Access controls to ensure that access to the system / data is appropriate</li> <li>❖ Reviewing data sharing arrangements are appropriate</li> <li>❖ Governance arrangements</li> </ul>		

#### High Priority Recommendations

2020-21 R1 System ownership and governance structures should be established in order that there is clear accountability for its current and future use.

2020-21 R3 In order that all partners are aware of their responsibilities a formally signed and an up to date version of the ISA should be obtained.

2020-21 R4 The City Council should nominate a SPOC to ensure compliance with the ISA in order that the terms and conditions of the ISA are complied with.

2020-21 R11 Team Admin accounts should be subjected to periodic review.

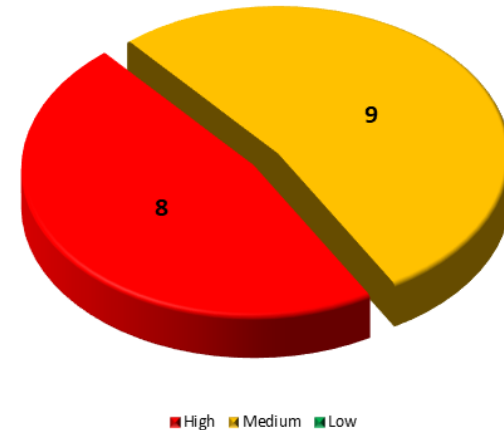
2020-21 R13 The status of these two users should be determined and where appropriate there access should be terminated.

2020-21 R14 All user accounts should be reviewed annually to ensure that the user based meets the operational requirements

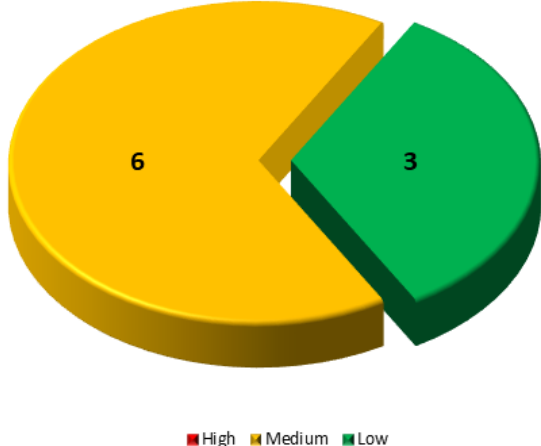
2020-21 R15 The system owner should receive assurance from the Team Admins that the ECINS user reports have been reviewed and action taken where dormant accounts have been identified.

2020-21 R16 Heads of Service should follow up the outstanding training to ensure all colleagues complete the appropriate training.

Summary of the recommendations by priority



## Annexe C – Audit Executive Summaries Parks & Open Spaces Contracts

<p>Directorate: Residents Services Division: Neighbourhood Services</p> <p>Previous review: N/A</p>	<p>Overall Opinion: <b>Moderate Assurance</b></p>	<p>Direction of Travel: N/A</p>								
<p><u>Scope and Approach:</u> This review considered the following:-</p> <ul style="list-style-type: none"> <li>• Business objectives / commercial strategy.</li> <li>• Profitability and contract monitoring</li> <li>• Legislative requirements.</li> <li>• Risk management and assurance.</li> </ul>										
<p><b>High Recommendations</b></p> <p>There are no high recommendations.</p>	<p><b><u>Summary of the recommendations by priority</u></b></p>  <table border="1"> <caption>Summary of the recommendations by priority</caption> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>0</td> </tr> <tr> <td>Medium</td> <td>6</td> </tr> <tr> <td>Low</td> <td>3</td> </tr> </tbody> </table>		Priority	Count	High	0	Medium	6	Low	3
Priority	Count									
High	0									
Medium	6									
Low	3									

## Annexe C – Audit Executive Summaries

### Governance & Use of Telematics

Directorate: Residents Services Division: Neighbourhood Services Previous review: None	Overall Opinion: <b>Significant Assurance</b>	Direction of Travel: This area has not been subject to any previous review
--	--	---

Scope and Approach: This review considered the following aspects of use of telematics within the Council:

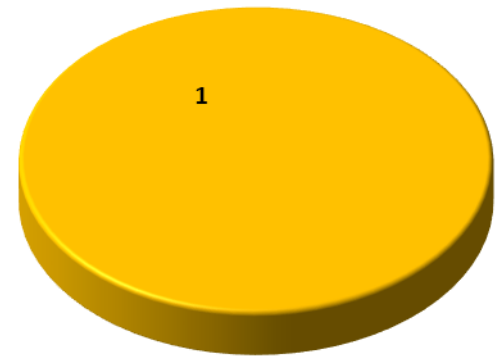
- Policies & procedures governing the use of telematics data
- Access controls to systems
- System security
- Governance arrangements and reporting

Page 67

#### High Priority Recommendations


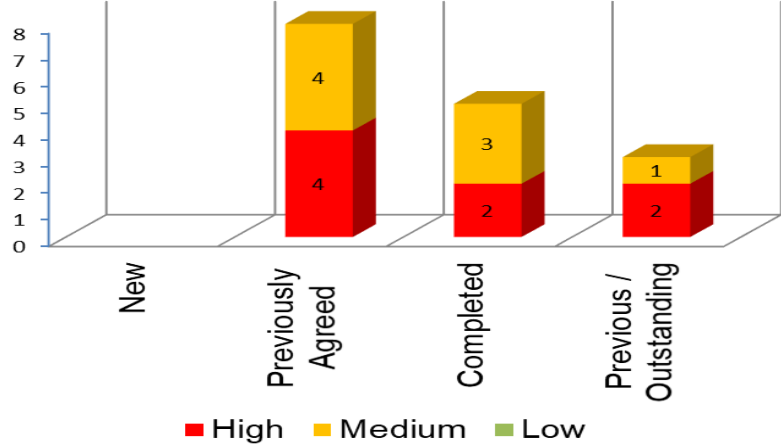
There are no high priority recommendations resulting from this review.

Summary of the recommendations by priority




■ High ■ Medium ■ Low

## Annexe C – Audit Executive Summaries Nottingham Schools Trust

Directorate: People Division: Education Services  Previous reviews: October 2019	Overall Opinion: <b>Moderate Assurance</b>	Direction of Travel: <b>Improving</b> 																				
<u>Scope and Approach:</u> ❖ Follow up on the previously raised recommendations																						
<p>High Priority Recommendations</p> <p><i>R1 Updated</i></p> <ul style="list-style-type: none"> <li>•The grant agreement should be aligned to the commissioning agreement and contract in respect of SIA days per school.</li> <li>•The NST's KPIs should be revisited to ensure all key priorities are clearly mapped onto KPIs which can then be monitored by the management.</li> </ul> <p><i>R7 Updated</i></p> <p>The link between needs assessment in the monitoring report and the improvement programme provided needs to be made clearer in order to meet priority 3 of the grant agreement, and monitoring should be against the commissioning and contract requirement of 5 days SIA time per school.</p>	<p><b><u>Summary of recommendations by priority</u></b></p>  <table border="1"> <caption>Data for Summary of recommendations by priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>4</td> <td>4</td> <td>0</td> </tr> <tr> <td>Completed</td> <td>2</td> <td>3</td> <td>0</td> </tr> <tr> <td>Previous / Outstanding</td> <td>2</td> <td>1</td> <td>0</td> </tr> </tbody> </table>		Category	High	Medium	Low	New	0	0	0	Previously Agreed	4	4	0	Completed	2	3	0	Previous / Outstanding	2	1	0
Category	High	Medium	Low																			
New	0	0	0																			
Previously Agreed	4	4	0																			
Completed	2	3	0																			
Previous / Outstanding	2	1	0																			

**Annexe C – Audit Executive Summaries**  
**Supporting Families 2020/21**

<p>Directorate: People          Division: Children’s Integrated Services</p> <p>Previous review: Significant</p>	<p>Overall Opinion:  <b>Significant Assurance</b></p>	<p>Direction of Travel:  <b>No change</b></p> 
<p><u>Scope and Approach:</u> This review considered the following aspects of the grant claim:</p> <ul style="list-style-type: none"> <li>• the family was eligible for the scheme</li> <li>• the PBR had not been claimed on an earlier return</li> <li>• the PBR criteria had been met and was suitably evidenced / documented</li> </ul>		
<p><b>High Priority Recommendations</b></p> <p>None</p>		

## Annexe D – Definitions for Assurance Levels and Recommendation Categories

### Levels of Assurance

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

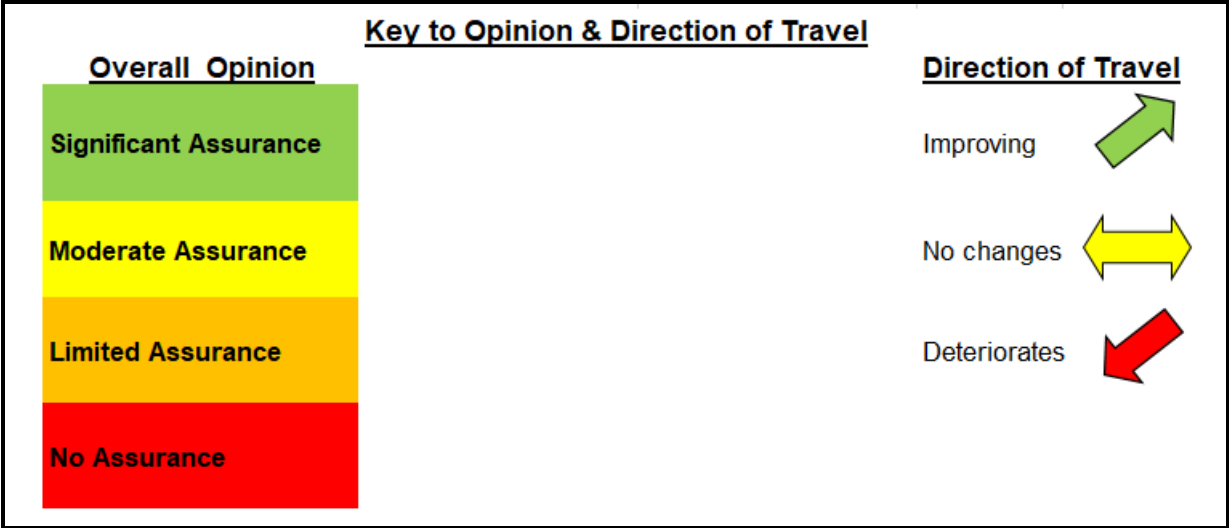
<b>Significant Assurance</b>	There is a generally sound system of control designed to meet the organisation's objectives and that controls are being applied consistently in the areas reviewed.
<b>Moderate Assurance</b>	Generally a sound system of internal control designed to achieve the organisation's objectives with some exceptions and / or evidence of non-compliance with some controls that may put some of the system objectives at risk
<b>Limited Assurance</b>	Weaknesses identified in the procedures and controls in key areas and / or non-compliance with key procedures and controls which constitutes a risk to the achievement of the organisation's objectives
<b>No Assurance</b>	Poor system of internal control or consistent non-compliance with key controls which could result in failure to achieve the organisation's objectives

### Categorisation of Recommendations

Recommendations within reports have been categorised by Internal Audit as:

- High Priority** A weakness where there is substantial risk of loss, fraud, impropriety, poor VFM or failure to achieve organisational objectives. Such risks could lead to an adverse impact on the business
- Medium Priority** A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor VFM. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
- Low Priority** Weaknesses that individually have no significant impact but where management would benefit from improved controls and / or have the opportunity to achieve greater effectiveness and / or efficiency.

**Annexe D – Definitions for Assurance Levels and Recommendation Categories**



This page is intentionally left blank



**Audit Committee – 26 November 2021**

<b>Title of paper:</b>	Contract Management and Procurement Dispensations Audit Reports update	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy – Interim Corporate Director Finance and resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Steve Oakley – Head of Contracting and Procurement steve.oakley@nottinghamcity.gov.uk	
<b>Other colleagues who have provided input:</b>	None	
<b>Does this report contain any information that is exempt from publication?</b> No		
<b>Recommendation(s):</b>		
1.	To note the actions already completed and the impact of these actions	
2.	Agree actions planned and being implemented, noting the planned impact of these actions	

**1. Reasons for recommendations**

- 1.1 Internal audit recently issued two reports into Contract Management and Procurement Dispensations respectively. Together, these identified a number of actions that Nottingham City Council needs to implement across all departments to ensure compliance with Contract Procedure Rules and to deliver best value. The actions identified are considered to be in line with contracting and procurement best practice and should be implemented to ensure the Council has robust processes in place for procurement and contract management.
- 1.2 A number of actions have already been completed and these are having a significant impact with increased requests to support teams with undertaking procurement exercises.

**2. Background**

- 2.1 The Contract Management Audit was initially undertaken in 2020 with actions planned during 2020. Due to COVID-19 actions were delayed due to the pressures on teams to deliver a response to the pandemic. The subsequent review of the audit in 2021 clearly identified that actions are still required.
- 2.2 The Procurement Dispensation report was undertaken as a follow up to an initial review of Dispensations by the Head of Contracting and Procurement. The review and audit identified significant non-compliance with Financial Regulations and Contract Procedure Rules which resulted in higher than would be expected requests from officers for Dispensation from Financial Regulations.

- 2.3 These two audit reports are separate in their own right, although the issues raised in each points to historic non-compliance with procedures and a need to ensure Contract Management and Procurement processes are embedded across the Council.
- 2.4 The recovery and improvement plan workstream within Procurement has identified the need to develop an operating model that supports commercial decision making so that all decisions are robustly considered and implemented in a way that gets best value for the Council and the citizens of Nottingham and also ensures probity.
- 2.5 Improving Contract Management and adherence to Contract Procedure Rules will ensure goods, services and works are procured through a process that provides best value and ensures contractors deliver in line with the contract.
- 2.6 **Key actions undertaken**
- 2.6.1 The revised constitution has updated Contract Procedure Rules (CPRs) which includes an exemption from CPRs form that needs to be completed when a Corporate Director wants to deviate from full compliance with the CPRs. There will be occasions when exemptions are approved. All exemptions will be reported to CLT on a quarterly basis.
- 2.6.2 A report and presentation was presented to Corporate Leadership Team (CLT) and Senior Leadership Forum in September where the issue of non-compliance with CPRs was raised. From this it was agreed that all departments need to plan with Procurement to ensure that contracts were let in future in line with CPRs. This has resulted in a significant increase in Procurement activity. Each Departmental Leadership Team (DLT) has been attended and Category Managers will now be attending divisional meetings to work on developing an accurate view of the contracts each Division have.
- 2.6.3 With the implementation of Oracle Fusion a new process for raising Purchase Orders has been implemented. This process requires all spend over £25k to have a dedicated Contract Purchase Agreement (CPA) set up. Procurement manage the CPA process and are now able to identify all occasions where contracts are being set up outside of CPRs.
- 2.6.4 Contract Management Training has been reviewed and for colleagues who undertake Contract Management as the majority of their role then the Central Government Commercial College training would be the best currently available. For other colleagues work is underway with HR to develop a suite of Contracting and Procurement Training that can be undertaken by all colleagues who role in procurement or managing suppliers.
- 2.7 As part of the Recovery and Improvement work it had been identified that additional resources are needed to support the implementation of best practice contract management. These resources have recently been agreed at Transformation Board and therefore the other actions within the Contract Management Audit can proceed with an aim to have implemented all actions by July 2022. The Head of Contracting and Procurement will lead the implementation of this programme over the next nine months.
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 Follow-up audit report Contract Management 2021
- 4.2 Internal Audit Report Procurement Dispensations

This page is intentionally left blank

**FINAL INTERNAL AUDIT REPORT**  
**Procurement Dispensations**  
**2021/22**



**Nottingham**  
**City Council**


**Nottingham City Council**  
**Internal Audit**

<b>Contents</b>	<b>Page</b>
Executive Summary	2
Introduction and Key Findings	3
Opinion	12
Action Plan	14
Appendix A – Breakdown of findings by decision	17
Appendix B – Cultural Observations	18
Appendix C – Definitions of Audit Opinion	20

Page 77

<b>Distribution List</b>	
Issue Date:	8 November 2021
Issued to:	Clive Heaphy, Corporate Director for Finance & Resources
Copied to:	Steve Oakley, Head of Contracting and Procurement

<b>Contact Details:</b>		
Head of Audit & Risk	Shail Shah	x 64245
Audit Manager	Simon Parsons	x 64246
Lead Auditor	Ann Ross	x 64325
Senior Auditor	Oliver Maltby	x 64603

Directorate: Finance & Resources Division: Procurement and Commissioning  Previous review: Procurement 2019-20 Contract Management 2019-20 Contracting and Procurement 2017-18	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: No improvement 
---	--	--

Scope and Approach: This review considered the following aspects of procurement:

- A review of Financial Regulations dispensations related to procurement activity taken since January 2021, including procurement/funding approvals.
- A review of departmental actions taken as a consequence of dispensations related to procurement activity.

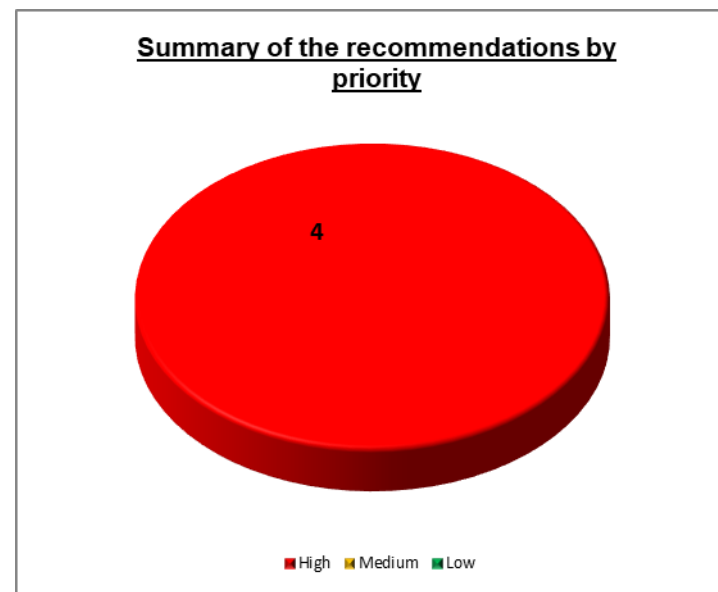
**High Priority Recommendations**

2021-22 R1 – Parties providing advice, in particular, Legal, Finance and Procurement, must provide critical advice and challenge decisions put forward that do not comply with financial regulations. If a decision is proposed that recommends the council does not comply with laws & regulations applying to the council, then advisors must not approve these decisions within their advice.

2021-22 R2 – We recommend CLT take action to ensure Directors in all areas of the Council comply with Financial Regulations and Contract Procedure Rules.

2021-22 R3 - Within the new performance framework (appraisals), CLT make compliance with financial regulations an explicit mandatory requirement for managers and those colleagues tasked with procurement activities.

2021-22 R4 – A role is developed to focus on monitoring compliance, holding the organisation to account and providing assurance to CLT of compliance with Financial Regulations.



Page 78

### Introduction and background

- 1.1 Procurement law regulates the purchasing of goods, works or services and all local authorities must adhere to the Public Contract Regulations 2015. In the wake of Brexit, the Government is developing major legislative reforms for public procurement which will deliver a new regulatory regime that better meets the needs of the UK. The Council's constitution, particularly Part 5, Financial Regulations and Contract Procedure Rules, sets out the processes that underpin the day-to-day management of public funds and procurement. As part of Nottingham City Council's (NCC's) Recovery & Improvement Plan 2021-2024, there will be a new constitution introduced to improve transparency, governance and accountability for council decision making, which includes a new set of Financial Regulations.
- 1.2 Under the current Financial Regulations, there should be no dispensations from Financial Regulations except as follows:
- Emergency Action – In the event of an emergency such as disasters and emergencies that present a risk to public health. The Chief Executive, a Corporate Director or the Director for Public Health are empowered to authorise all necessary actions.
  - Operational Issues at or above Key Decision value – In consultation with the Portfolio Holder with responsibility for Finance. The Chief Finance Officer's observations must be included in any report seeking a dispensation
  - Operational Issues below Key Decision value – If the Chief Executive, a Corporate Director or Director for Public Health considers there are justifiable reasons for dispensing with regulations they may do so, following evidenced consultation with the Chief Finance Officer, provided that;
    - i. for delegated decisions, the Chief Executive, Corporate Director or the Director for Public Health then obtains the agreement of the relevant Portfolio Holder to their decision through the Portfolio Holder decision process;
    - ii. or for a decision to be made by Executive Board or one of its sub committees or a non-executive committee, the Chief Finance Officer's observations are included in any report seeking such a dispensation.
- This is a summarized explanation of Part 5 Financial Regulations and Contract Procedure Rules, Section 3.29 Dispensation from Financial Regulations. Conditions have been shortened to provide a summary for this document*
- 1.3 The Corporate Director of Finance & Resources and Head of Contracting and Procurement have serious concerns regarding the number of dispensations that have occurred or continue to be presented for approval, the standard of contract

## Procurement Dispensations

---

management within NCC and the number of instances where the council transacts business without having contracts in place.

- 1.4 Our previous reports on Procurement and Contract Management were both classified as Limited Assurance, with a large number of high rated recommendations that recorded similar concerns to those raised by the Corporate Director, including but not limited to:

### Procurement

- Poor compliance with Financial & Procurement Regulations
- Clear evidence of off-contract spending

### Contract Management

- A lack of systematic approach to addressing risk, supporting delivery and increasing value for money
- A lack of defined corporate contract management approach or arrangements
- A lack of contract management policy, common standards and guidance for contract management
- A lack of corporate oversight and assurance reporting

- 1.5 A follow-up of recommendations made in both the Procurement and Contract Management audits of 2019-20 will be reported on later in the year as well as a review of Oracle Fusion.
- 1.6 Oracle Fusion was implemented for finance in April 2021. It should introduce a number of changes/improvements regarding how purchases are made by departments. A key change is an expectation that all purchases will now be linked to a category code allowing improved spend analysis to be undertaken, something which was limited within the old Oracle BS system. A second significant change is the use of 'Contract Purchasing Agreements' (CPA). Departments will have to select a CPA when raising a requisition and a CPA will only be available if the correct procurement process has been undertaken. It is understood that Procurement are currently dealing with a large volume of new CPA requests.



### Key Findings

- 1.7 The scope of this Internal Audit review is to focus on the concerns raised by the Corporate Director of Finance & Resources and the Head of Contracting & Procurement surrounding the number of financial dispensations, in order to conduct and/or facilitate procurement activity within the council.

#### Number of Financial Dispensations (data supplied by Contracting & Procurement)

- 1.8 The Head of Contracting & Procurement has provided us with details of an exercise conducted to assess whether dispensations of Financial Regulations that were approved since January 2019 should have actually been approved. They used a RAG rating (rated as Red, Amber or Green) to highlight their opinion.

	Resident Services	Growth & City Development	People	Finance & Resources	Total	% (excluding those not classified)
Red	23	23	2	5	53	46%
Amber	10	17	9	8	44	38%
Green	4	4	6	5	19	16%
More information required to classify	11	4	8	6	29	
Total	48	48	25	24	145	

- 1.9 It is very concerning that only 16%<sup>1</sup> of the dispensations of Financial Regulations approved, are rated Green within the Contracting & Procurement ratings provided to us.

<sup>1</sup> Excluding financial dispensations that required more information to classify

## Procurement Dispensations

---

1.10 The Head of Contracting & Procurement contacted Nottinghamshire County Council who confirmed 12 decisions received a dispensation of financial regulations in the previous financial year. In comparison, Nottingham City Council dispensed with financial regulations in 54 decisions over the same period.

### Review of financial dispensations conducted by Internal Audit

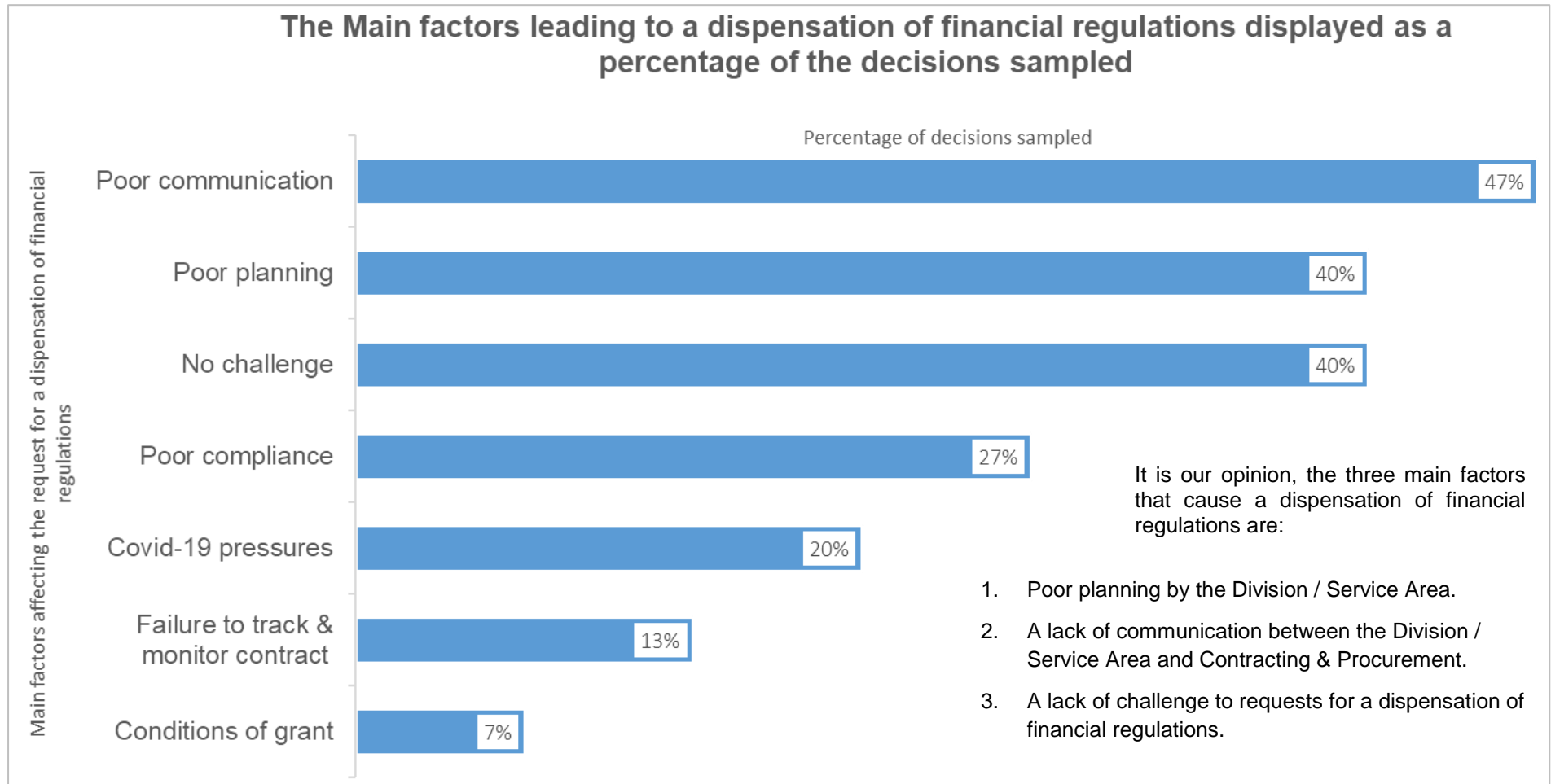
- 1.11 We requested data from Legal & Governance on the financial dispensations approved since January 2021. We were provided with data from the Delegated Decisions System but it is important to note this only covers Delegated Decisions made through the system and does not include financial dispensations that are agreed through Executive Board Papers and reports not input and managed through the Delegated Decision System.
- 1.12 A total of 22 financial dispensations were approved between 01 January 2021 and 24 April 2021. We applied conscious bias to select decisions more likely to be irregular based on the limited information available within the initial data provided to us. However, we selected a total sample size of 15 decisions, a significant proportion of the total available sample. Therefore, it is our belief the bias we applied will not affect the conclusions raised within our review. Our key findings are as follows:
- 60% of the decisions did not have any approval for funding provided prior to the procurement decision having been made. We found on more than one occasion, goods and services had been purchased by Service Areas without any approval and dispensations of financial regulations were being requested in a retrospective manner leaving no opportunity for these 'decisions' to be rejected by the actual parties responsible for approving the decisions, without the rejection causing additional cost to the council. It is clear funding approval is consistently bypassed or presumed and this significantly affects the ability for central control or monitoring of finances.
  - 73% of the decisions with a dispensation of financial regulations did not indicate that obtaining Value for Money (VFM) for the council had been considered.
  - 43% of the decisions with a dispensation of financial regulations did not have the procured party listed on the NCC Contracts Register published on 21 April 2021.
  - 73%<sup>2</sup> of decisions, where financial regulations had been dispensed with to procure goods or services, were not on the NCC Public Procurement Plan for future procurement exercises.

<sup>2</sup> We acknowledge Contracting & Procurement may not have had time to agree a future procurement route, for all dispensations in our sample, prior to publish of the Procurement Plan on 21 April 2021. Additionally, we understand Procurement have raised staffing levels and capacity as a key barrier to conducting compliant procurement exercises across the organisation.

# Procurement Dispensations

## Main factors leading to a dispensation of financial regulations

1.13 After reviewing each decision we assigned to them factors that we believe were the main or majority reason(s) for a financial dispensation to be provided and the results are displayed in the graph below.



## Procurement Dispensations

---

- 1.14 Referring back to section 1.2. Under the current NCC Financial Regulations, there should be no dispensations from financial regulations except as emergency action or due to operational issues with justifiable reasons.
- 1.15 It is our opinion the three main factors that cause a dispensation of financial regulations are:
- Poor planning by the Division / Service Area.
  - A lack of communication between the Division / Service Area and Contracting & Procurement.
  - A lack of challenge to requests for a dispensation of financial regulations.
- 1.16 We do not consider the majority of decisions were in reaction to an emergency or due to operational issues of justifiable reason and in the majority of cases we believe dispensations of financial regulations could have been avoided or should not have been approved.
- 1.17 As part of the Councils Recovery & Improvement Plan 2021-2024, there will be a new constitution introduced to improve transparency, governance and accountability for council decision making, which includes a new set of NCC Financial Regulations. It is a key objective of Theme Five: Constitution: “To establish and embed best practice principles of corporate governance throughout our decision-making processes and Constitution”.

### Consequences of making a request to dispense with financial regulations

- 1.18 Within Section 2, Status of Financial Regulations, of the current NCC Financial Regulations it states:

“ Financial Regulations provide the framework for managing the City Council’s financial affairs, and set out the rules and processes that underpin the day to day management of public funds. The Financial Regulations include Contract Procedure Rules that govern the way in which work, goods, materials and services are procured by the Council.

The Financial Regulations apply to every Councillor and colleague of the authority and anyone acting on its behalf, and all these individuals are required to abide by them in all circumstances. These responsibilities also apply when Councillors or colleagues represent the City Council on outside bodies.

”

## Procurement Dispensations

---

- 1.19 Dispensing with financial regulations should be a rare action and should not be taken lightly. Every Councillor and colleague is required to abide by financial regulations in all circumstances. Instead, we found there is an absence of responsibility, no accountability and no consequence for breaching financial regulations.
- 1.20 We found a trend of cyclical dispensations being approved year after year with no consequence or action to make changes. The wording and reasons cited in decision 4096, is almost word for word the same as used in decision 3314, approved three years prior (2018), which is almost the exact same wording as decision 3060, approved one year prior to that (2017). Similar circumstances occur in decision 4169, the exact reasoning and wording used as in decision 3368, approved two years prior (2019) and decision 2331, approved three years prior to that (2016). The consequence is that decision 4096 approves use of suppliers dating back to 2002 and whom were cited in 2016 as going to be replaced in one year, but in 2021, the same suppliers are still in place, with no procurement plan for the future. Decision 4169 approves the use of a supplier dating back to 2013, with a possibility of a blurring of lines within the supplier relationship and council business.
- 1.21 There is no critical advice provided in any of the 15 decisions we reviewed. The Head of Contracting & Procurement provided an opinion that only 16% of decisions with dispensations of financial regulations (since January 2019) should have been approved (paragraph 1.8 and 1.9). However, all of the requests for dispensation of financial regulations in the decisions we reviewed were approved by Contracting & Procurement and none of them included any critical wording. This was also observed in the advice provided by all other parties: Legal, Finance and HR.
- 1.22 Decision makers need to be fully informed about the decision including process failings that have occurred. They may, in some circumstances, for example where process failings have caused a time-pressured decision for the council, be required to dispense with financial regulations against the advice of Legal, Finance and Procurement but they should be aware of the process failings that have led to these circumstances so they are fully aware of the risks to the council and the Division / Service Area can be held to account for these failings.
- 1.23 We recommend that parties providing critical advice, in particular, Legal, Finance and Procurement, challenge decisions put forward that do not comply with the councils financial regulations. If a decision is proposed which recommends the council does not comply with laws & regulations applying to the council, then advisors should not approve these decisions within their advice.

## Procurement Dispensations

---

### Cultural inadequacies impacting quality of decisions and requirement for financial dispensations

- 1.24 With the absence of good planning & communication, responsibility & accountability, a lack of critical advice, no challenge and no consequences for breaching financial regulations a significant number of cultural inadequacies have been allowed to develop.
- 1.25 We utilised the cultural themes identified within the Culture – Ethics 2020-21 Internal Audit Report and found the following:
- 53% of the decisions indicated a negative Decision Making culture, examples include:
    - i. Poor planning and communication causing time-pressured decisions
    - ii. Poor long term service planning leading to yearly contract renewals with no consideration of long term financial consequences
    - iii. Poor financial advice and a lack of actual VFM analysis
  - 80% of the decisions showed negative Compliance culture, examples include:
    - i. No compliance with Financial Regulations
    - ii. Failure to carry out compliant procurement process
    - iii. No funding approval prior to purchase of goods / services
    - iv. No communication or consultation with Procurement
    - v. Contracts not on the Contracts Register
  - 73% of the decisions showed negative Challenge Culture, examples include:
    - i. Policy takes priority over financial interests of the council
    - ii. No challenge to decision within advice provided by third parties particularly Procurement, Legal & Finance
    - iii. No critical advice despite clear failings in processes
- 1.26 Please see the Appendix A and B for a breakdown of our findings across the decisions we reviewed.

## Procurement Dispensations

---

### Recommendations for action

- 1.27 As part of the Recovery & Improvement Plan 2021-2024, there will be a new constitution including a new set of NCC Financial Regulations and objectives to embed best practice principles of corporate governance. For this reason we have not made recommendations in this area.
- 1.28 There is an absence of compliance and accountability for procurement across the entire council. It is within the power of Divisions and Service Areas to comply with financial regulations. However, compliance with regulations has degraded to a point where the Corporate Leadership Team (CLT) must act to enforce change. Without CLT action we do not believe change will occur. Divisions / Service Areas must be challenged and held to account by CLT for their compliance with Financial Regulations.
- 1.29 There is currently no role that exists to provide assurance to CLT of compliance across the Council or its other holdings. The council is not adequately informed of compliance and non-compliance. We recommend a role is developed to focus on monitoring compliance, holding the organisation to account and providing assurance to CLT of organisational compliance with Financial Regulations.
- 1.30 We also recommend that within the new performance framework (appraisals), consideration is given to making compliance with financial regulations an explicit mandatory requirement for managers and those colleagues tasked with procurement activities.

### Opinion

We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the agreed Audit Brief. We can report **Limited Assurance** on the controls in this area. Areas of concern are based on the following:-

- The Head of Contracting & Procurement rated only 16% of the dispensations of financial regulations approved since January 2019, as Green within the RAG rating provided to us.
- 60% of the decisions we reviewed did not have any approval for funding provided prior to the procurement decision having been made.
- 73% of the decisions we reviewed did not indicate an attempt to obtain Value for Money (VFM) for the council.
- 43% of the decisions we reviewed did not have the procured party listed on the NCC Contracts Register published on 21 April 2021.
- None of the decisions we reviewed included any critical advice despite clear failings in processes.
- In the majority of cases we believe dispensations of financial regulations could have been avoided or should not have been approved.
- Finally, with the absence of good planning & communication, responsibility & accountability, a lack of critical advice, no challenge and no consequences for breaching Financial Regulations, a significant number of cultural inadequacies have been allowed to develop.

### Reporting to Committee

- 1.31 As we have reported a **Limited Level of Assurance** on the controls in this area, the Section 151 Officer may require those Directors responsible for some of the decisions mentioned in this report to attend a future meeting of the Audit Committee to account for the highlighted weaknesses and to discuss the proposals for improving the control framework. Where necessary, these Directors will be contacted in advance of the meeting to discuss the extent of any improvements that have been made in the interim, along with a briefing on expectations of the Audit Committee.



## Procurement Dispensations

---

### Summary of Recommendations

- 1.32 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.
- 1.33 Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

Priority	New Recommendations
High	4
Medium	0
Low	0
<b>Total</b>	<b>4</b>

### Responsibilities

- 1.34 Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested.
- 1.35 Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.

## Detailed Findings and Action Plan

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
2021-22 R1	<p>There is no critical advice provided in any of the decisions we reviewed. The Head of Contracting &amp; Procurement provided an opinion that only 16% of decisions with dispensations of financial regulations (since January 2019) should have been approved (paragraph 1.8 and 1.9). But all of the requests for dispensation of financial regulations in the decisions we reviewed were approved by Contracting &amp; Procurement and none of them included any critical wording. This was also observed in the advice provided by all other parties: Legal, Finance and HR.</p> <p>Risk – Decision makers are unaware their decisions means the council will not be complying with regulation resulting in legal action taken against the council, financial loss and reputational damage</p>	<p>Parties providing advice, in particular, Legal, Finance and Procurement, should provide critical advice and challenge decisions put forward that do not comply with financial regulations.</p> <p>If a decision is proposed that recommends the council does not comply with laws &amp; regulations applying to the council, then advisors should not approve these decisions within their advice.</p>	High	<p>The new contract procedure rules include a form for all exemption request which will be implemented with the new constitution from October 2021. Decisions will only be progressed if the exemption is approved, this will ensure decisions are not taken without appropriate advice.</p> <p>The information contained in the forms will be used to collate a report to CLT outlining all exemption requests.</p>	<p>October 2021 Complete</p> <p>January 2022 Head of Contracting and Procurement</p>

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
2021-22 R2	<p>There is an absence of compliance and accountability for procurement across the entire council. It is within the power of Divisions and Service Areas to comply with Financial Regulations. However, compliance with regulations has degraded to a point where the Corporate Leadership Team (CLT) must act to enforce change. Without CLT action we do not believe change will occur. Divisions / Service Areas must be challenged and held to account by CLT for their compliance with Financial Regulations.</p> <p>Risk – No change in compliance, the council continues to fail to comply with laws &amp; regulations applying to it.</p>	We recommend CLT take action to ensure Directors in all areas of the Council comply with Financial Regulations and Contract Procedure Rules.	High	<p>Report being provided at CLT on 15<sup>th</sup> September and Senior Leadership Forum on the same day to outline the issues and remind Directors and Heads of Service of the need to comply with Financial Regulations and Contract Procedure Rules.</p> <p>Action taken and all DLTs to review their processes. Monitoring of exemptions now being completed by Head of Contracting and Procurement to report quarterly to CLT</p>	Steve Oakley 15/09/21
2021-22 R3	As above	Within the new performance framework (appraisals), CLT make compliance with financial regulations an explicit mandatory requirement for managers and those colleagues tasked with	High	<p>The new Constitution has included action to address this issue. Article 16 Employee code of conduct states the following requirement: -</p> <p>Employees involved in the purchase of work, goods, materials and services</p>	

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
		procurement activities.		<p>must comply with the relevant standing orders and financial regulations approved by the Council.</p> <p>The new financial regulations also require Corporate Directors to ensure all colleagues involved in purchasing comply with the Contract Procedure Rules.</p> <p>Advice being sought from HR around the best way to handle this requirement in HR processes.</p>	<p>January 2022</p> <p>Head of Contracting and Procurement</p>
2021-22 R4	<p>There is no role providing assurance to CLT of compliance across the Council or its other holdings.</p> <p>Risk - The council is not adequately informed of non-compliance with laws &amp; regulation applying to it.</p>	<p>A role should be developed to focus on monitoring compliance, holding the organisation to account and providing assurance to CLT of compliance with Financial Regulations</p>	High	<p>With the agreed Transformation funding for Contracting and Procurement the additional resources will be exploring the operating model for the service including roles with managing compliance. The Head of Contracting and Procurement is monitoring all exemptions and reporting quarterly to</p>	<p>July 2022</p> <p>Head of Contracting and Procurement</p>

Page 92

<b>Year Ref</b>	<b>Finding Risk</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response</b>	<b>Responsibility and Target Date</b>
				CLT from January 2022	

Num.	Division	Directorate	Funding approved prior to decision of who to procure?	Was VFM determined in the dispensation?	Is the service on the Contracts Register?	Now on the Procurement Plan for the future?
4194	Waste Collection & Disposal	Resident Services	No	Yes	Yes	No
4096	Strategy, Performance, Marketing & Communications	Finance & Resources	Yes	No	No	No
4093	Public Health	People	No	No	Yes	No
4155	Community Protection	Resident Services	No	Yes	No	No
4088	Education Services	People	No	No	No	Yes
4086	Planning, Regeneration & Housing	Growth & City Development	Yes	No	Yes	Yes
4224	Carbon Reduction, Sustainability & Energy Services	Growth & City Development	No	No	Yes	No
4173	Major Projects	Growth & City Development	Yes	No	No	No
4169	Public Health	People	No	No	Yes	Yes
4170	Major Projects	Public Health	No	Yes	n/a	n/a
4165	Planning, Regeneration & Housing	Growth & City Development	Yes	No	Yes	n/a
4100	Sport & Culture	Resident Services	Yes	No	No	n/a
4118	Community Protection	Resident Services	Yes	No	Yes	No
4089	Public Health	People	No	No	No	No
4091	Public Health	People	No	Yes	Yes	n/a

Page 94

Num.	Division	Directorate	Main factors causing dispensation	Observations of negative culture causing or impacting the financial dispensation							
				Governance	Risk	Decision Making	Holding to Account	Challenge	Appropriate & timely actions	Compliance	Quality Assurance
4194	Waste Collection & Disposal	Resident Services	Poor planning Poor communication Failure to track & monitor contracts			X	X		X	X	
4096	Strategy, Performance, Marketing & Communications	Finance & Resources	Poor planning Poor communication Failure to track & monitor contracts			X	X		X	X	X
4093	Public Health	People	Covid-19 pressures	X		X		X		X	
4155	Community Protection	Resident Services	Poor communication							X	
4088	Education Services	People	Poor compliance No challenge		X			X		X	X
4086	Planning, Regeneration & Housing	Growth & City Development	Poor planning Poor communication	X		X		X			
4224	Carbon Reduction, Sustainability & Energy Services	Growth & City Development	Poor compliance No challenge	X				X		X	
4173	Major Projects	Growth & City Development	Poor compliance No challenge			X		X		X	

Page 95

Num.	Division	Directorate	Main factors causing dispensation	Observations of negative culture causing or impacting the financial dispensation							
				Governance	Risk	Decision Making	Holding to Account	Challenge	Appropriate & timely actions	Compliance	Quality Assurance
4169	Public Health	People	Covid-19 pressures No challenge	X		X		X		X	X
4170	Major Projects	Public Health	Poor planning Poor communication No challenge		X	X		X	X	X	
4165	Planning, Regeneration & Housing	Growth & City Development	No challenge		X			X		X	X
4100	Sport & Culture	Resident Services	Conditions of grant	X		X					X
4118	Community Protection	Resident Services	No challenge					X			
4089	Public Health	People	Covid-19 pressures Poor planning Poor communication					X	X	X	
4091	Public Health	People	Poor planning Poor communication					X	X	X	X

Page 96



**Levels of Assurance**

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

<b>Significant Assurance</b>	There is a generally sound system of control designed to meet the organisation’s objectives and that controls are being applied consistently in the areas reviewed.
<b>Moderate Assurance</b>	Generally a sound system of internal control designed to achieve the organisation’s objectives with some exceptions and / or evidence of non-compliance with some controls that may put some of the system objectives at risk
<b>Limited Assurance</b>	Weaknesses identified in the procedures and controls in key areas and / or non-compliance with key procedures and controls which constitutes a risk to the achievement of the organisation’s objectives
<b>No Assurance</b>	Poor system of internal control or consistent non-compliance with key controls which could result in failure to achieve the organisation’s objectives

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

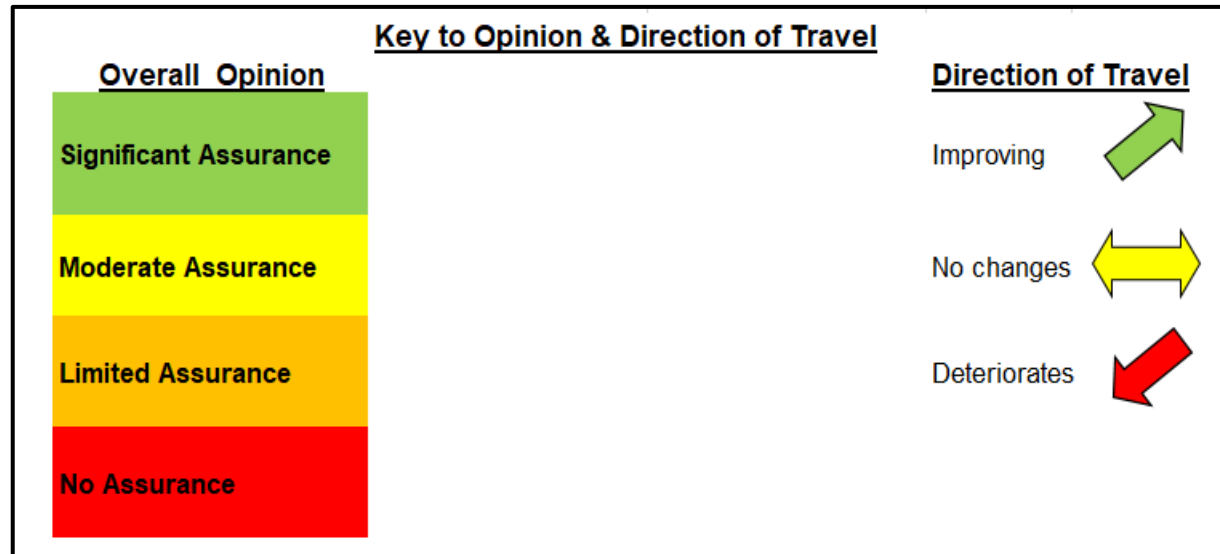
**Categorisation of Recommendations**

The recommendations within this report have been categorised by Internal Audit as:

- High Priority**      A weakness where there is substantial risk of loss, fraud, impropriety, poor VFM or failure to achieve organisational objectives. Such risks could lead to an adverse impact on the business
- Medium Priority**      A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor VFM. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
- Low Priority**      Weaknesses that individually have no significant impact but where management would benefit from improved controls and / or have the opportunity to achieve greater effectiveness and / or efficiency.

In all cases, Internal Audit will follow up implementation of the recommendations by the agreed date.

Page 97






<b>Contents</b>	<b>Page</b>
1 Executive Summary	2
2 Introduction and Key Findings	4
3 Action Plan	9
Appendix A – Definitions of Audit Opinion	18

<b>Distribution List</b>	
Issue Date:	4 August 2021
Issued to:	Clive Heaphy, Corporate Director for Finance & Resources Steve Oakley, Head of Contracting and Procurement
Copied to:	

<b>Contact Details:</b>		
Head of Audit & Risk	Shail Shah	
Audit Manager	Simon Parsons	
Lead Auditor	Ann Ross	

Executive Summary

Directorate: Finance & Resources  Previous reviews: Contract Management 2019/20	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: 
--	--	---

Scope and Approach:

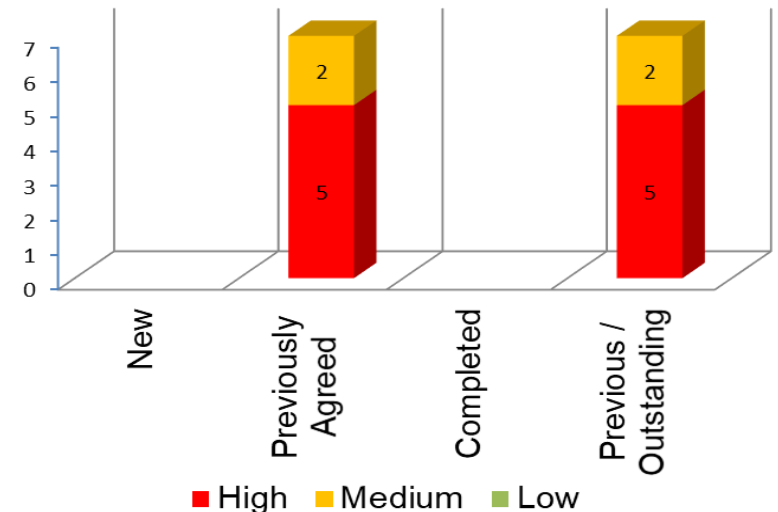
Follow up of the recommendations in the 2019/20 Contract Management audit report

**High Priority Recommendations from our 2019/20 Audit**

R1 As part of an assurance framework for contract management:

- Implement a clear contract management framework that manages contract risk and allocates contracts to governance tiers and contract management responsibilities to competent contract managers either centrally or departmentally, by considering factors including value, risks, importance, and complexity.
- Implement corporate oversight by portfolio to provide assurance that clear contract management plans are in place and contracts are well-constructed and performance based.
- Implement contract management systems and processes that allow consistent measurement of performance and value for money in line with the Council’s objectives and savings targets.
- Collect customer and supplier feedback in order to :
  - help monitor contract compliance
  - support strategy development
  - measure benefits, including savings obtained.

**Summary of recommendations by priority**



R2 A Contract Management Policy and associated standards and guidance toolkit should be developed to ensure that all contracts are managed in a consistent and compliant manner. This should be available to all contract managers.

R4 The level and location of scrutiny that contracts should receive should be determined at the contract procurement stage. A Contract Assessment Matrix should be introduced and completed to confirm the governance tier required.

R5 Procedures should be in place to ensure that all contracts are subject to a commercial risk assessment. There should be regular risk reviews across the whole contract portfolio to test and benchmark commercial risk and consider other risk themes such as supplier risk. A risk register should be developed and any departmental or corporate risks escalated as appropriate.

R6 The new corporate financial system Oracle Fusion should ensure the following:

- contract identification
- contract details i.e. value, start and end dates, manager's name
- contract creation only if there is relevant approval
- approval to spend only if there is contract in place
- approval of payments should be automatically linked to contract
- reporting facilities to evidence spend by contract and business area

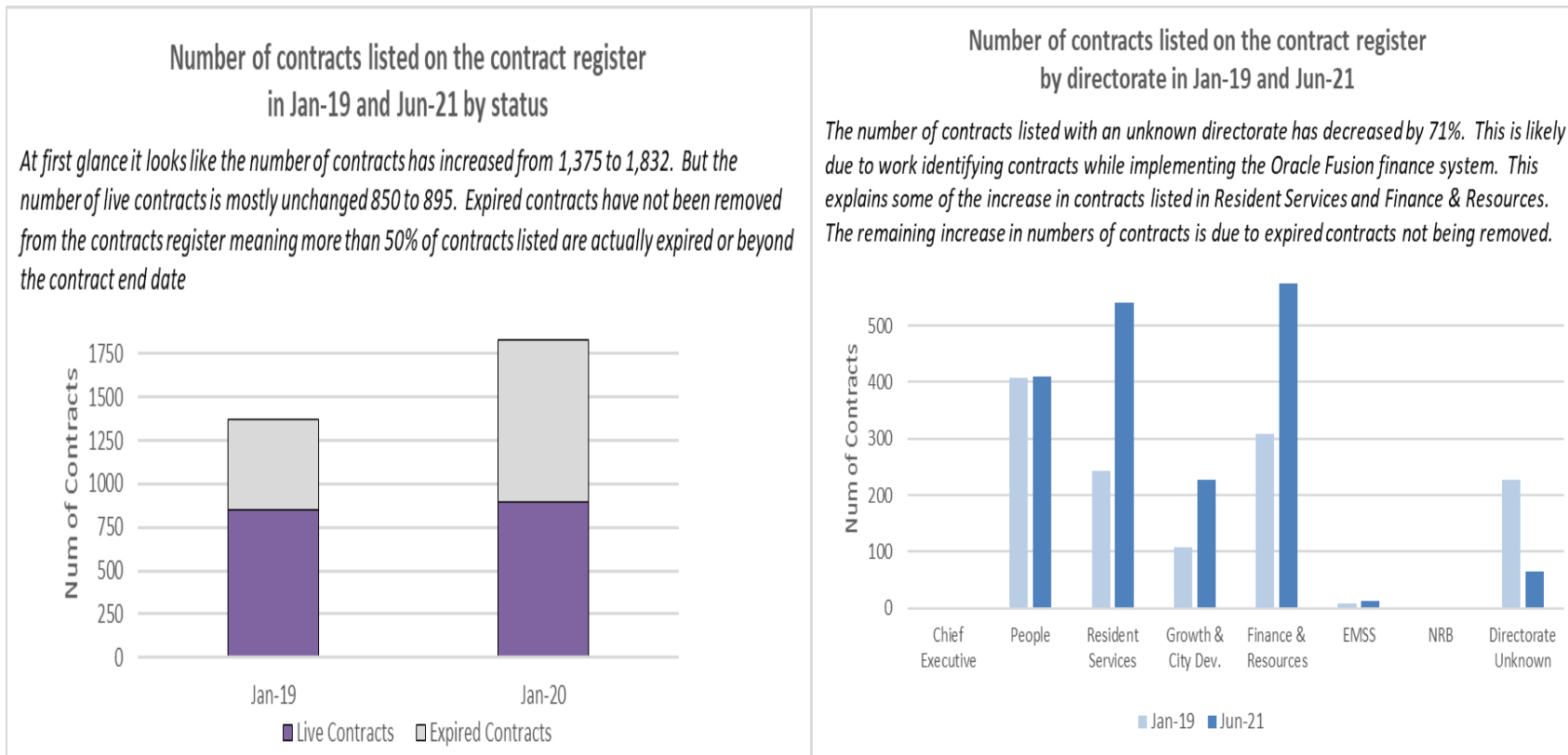
## Introduction and Background

- 1.1 We have undertaken a follow-up review of the 2019/20 Contract Management Audit Report. This work forms part of the Procurement/ Contract Management audit review 2020/21 which covers :-
- Procurement Dispensations
  - Follow Up of Contract Management 2019/20 audit review
  - Oracle Fusion
- 1.2 The Corporate Director of Finance & Resources has serious concerns regarding the standard of contract management within NCC and the Contract Management Follow Up will be reported alongside the Procurement Dispensations Audit Report.
- 1.3 Our 2019/20 report covered the following areas:
- Corporate support for contract management /strategic direction and oversight on contract management, including contract management policy and procedures
  - Governance arrangements
  - Roles, responsibilities, competencies and accountabilities
  - Supplier management, change control and contract performance monitoring
  - Financial and risk management
- 1.4 The overall audit opinion was classified as **Limited** and seven recommendations were raised and we can report that all recommendations remain outstanding.

## Key Findings

- 1.5 According to CIPFA's Practical Guide to Contract Management, *the foundations of good contract management lie in the planning and procurement phases*. Nottingham City Council has numerous contracts, large and small and often several contracts with the same supplier. It is important that these contracts are managed efficiently throughout the contracts lifecycle.

- 1.6 The Contracts Register is an important corporate resource to keep track of live contracts and to highlight expiring contracts, allowing the Procurement Team to plan future procurement exercises. The Contracts Register is also published to the public, on the Open Data Nottingham website, [www.opendatanottingham.org.uk](http://www.opendatanottingham.org.uk), to meet requirements of the Local Government Transparency Code 2015.
- 1.7 Concerns were raised during audits for Contract Management 2019/20 and Procurement 2019/20 that the Contract Register held by NCC is incomplete. Further testing completed during the recent Procurement Dispensation Audit found that the register still does not contain all contracts held by NCC. A comparison of contracts held on the Contracts Register June 2021 and January 2019 (previous audit) has been undertaken, with the following results :-



- 1.8 The following concerns are noted regarding the Contracts Register :-
- Although 1,832 contracts are listed on the register. 937 (51%) are expired according to the listed contract end date (dating back to August 2013).
  - The Directorates have now changed and some Service Areas have moved between directorates but the Contract Register has not been updated to reflect that
  - Chief Executive is not a directorate
  - There are Council companies listed within the directorate category (EMSS & NRB) but not all Council companies are included here
- 1.9 Whilst ever the Contracts Register remains incomplete, the Council is unable to assess what contracts are currently being undertaken, who is managing the contract and when the contract is due for renewal. A contracts register should allow the Council to track and monitor performance of all contracts in one central location.
- 1.10 Oracle Fusion was implemented for finance in April 2021 and should introduce a number of changes/improvements regarding how purchases are made by departments. A key change is an expectation that all purchases will now be linked to a category code allowing improved spend analysis to be undertaken, something which was limited within the old Oracle BS system. A second significant change is the use of 'Contract Purchasing Agreements' (CPA). Departments will have to select a CPA when raising a requisition and a CPA will only be available if the correct procurement process has been undertaken. It is understood that Procurement are currently dealing with a large volume of new CPA requests. As CPAs are raised then the contract details should be updated on to the Contracts Register. Further testing regarding the new Oracle Fusion and the impact on procurement is to be undertaken by Internal Audit later this year.
- 1.11 The Contracting and Procurement service still has no information regarding the management of contracts where they are not involved at the procurement stage. We understand that where teams carry out their own procurement, they do not always approach the Contracting Team to support their contract management. However, as teams are starting to require CPAs in order to raise orders through Oracle Fusion, the Contracting Team are being approached. A number of temporary CPAs have been completed which will allow the Department to pay invoices for services received.
- 1.12 There is still no corporate approach that defines how contracts should be managed. In response to the previous audit review, Procurement and Contracting were to develop a contract tool kit which would enable contract managers to have a joined up



approach for the managing and procurement of contracts. Procurement and Contracting have confirmed that due to resources, no work has been undertaken in this area so far. The findings from our recently completed Dispensations Audit indicate that one of the main factors causing dispensations in our sample (40%) was poor planning. A corporate strategy would ensure that the planning, procurement and management of contracts are joined up, sufficient resources are allocated and a culture that supports contract management is adopted.

- 1.13 The lack of training available colleagues who manage contracts was an issue raised previously and discussions with the Head of Contracting & Procurement have confirmed that the department has not made any progress towards sourcing any suitable material which could be attached to the Learning Zone.
- 1.14 Ensuring that people with the right skills are in place to carry out contract management is essential to release more value from contracts. Training in contract management is vital in order to prepare colleagues for third-party arrangements, and must be adequately resourced.
- 1.15 Theme Seven 'Delivery Options' of the Recovery & Improvement Plan 2021-2024 looks towards improvements in the Procurement Strategy and a number of work streams are being implemented. For this reason we have not made any further recommendations in this area.

### Opinion

- 1.16 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed. Overall, we are able to give **Limited Assurance** on the controls with a direction of travel of **No Change**. No work has been undertaken in implementing the recommendations made during the 2019/20 audit. The Head of Contracting and Procurement has stated that this is due to a lack of resources and a difficult operating year with the Pandemic and Oracle Fusion being implemented.
- 1.17 Areas of concern remain :-
  - a lack of defined corporate contract management approach or arrangements
  - no comprehensive training courses developed for contract managers
  - a lack of contract management policy and common standards and guidance for contract management

- the current financial system (Oracle) does not allow to measurement of how much is spent by contract
- no data analysis on contract performance, including performance dashboards to enable strategic decision making
- no corporate oversight and assurance reporting
- a lack of systematic approach to addressing risk, supporting delivery and increasing value for money

1.18 By having a corporate approach towards contract management this would look towards meeting part of the council's objectives in implementing the Recovery and Improvement Plan. It should be acknowledged that additional resources will be required in order to implement these changes and to ensure that NCC has the appropriate level of contract management.

### Reporting to Committee

1.19 As we continue to report a **Limited Level of Assurance** on the controls in this area, it is likely that this report will need to be discussed at a future Audit Committee.

**Summary of Recommendations**

- 1.20 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.
- 1.21 Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

Priority	Previous Recommendations	Completed	Recommendations Outstanding
High	5	0	5
Medium	2	0	2
Low			
<b>Total</b>	<b>7</b>	<b>0</b>	<b>7</b>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
<b>Contract Management</b>						
R1 2019-20	<p>We have noted a lack of a common framework to ensure:</p> <ul style="list-style-type: none"> <li>a defined corporate contract management approach which allocates the responsibility for managing contracts dependent on the:                             <ul style="list-style-type: none"> <li>contract type</li> <li>strategic importance, and</li> <li>risks involved</li> </ul> </li> <li>corporate oversight that ensures a clear contract management plan is in place for each Council contract</li> <li>direction on how contractual performance should be designed, monitored, and evaluated</li> </ul>	<p>As part of an assurance framework for contract management:</p> <p>Implement a clear contract management framework that manages contract risk and allocates contracts to governance tiers and contract management responsibilities to competent contract managers either centrally or departmentally, by considering factors including value, risks, importance, and complexity.</p> <p>Implement corporate oversight by portfolio to provide assurance that clear contract management plans are in place and contracts are well-constructed and performance based.</p>	High	<p>As part of the contract toolkit an assessment matrix should be developed</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	No change <b>Outstanding</b>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by</p> <p>July 2022</p> <p>Head of Contracting and Procurement</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
	<ul style="list-style-type: none"> <li>• assurance that value for money is being achieved from the Council's contracts</li> <li>• assurance that the Council's objectives and obligations are met</li> <li>• awareness as to how the Council's contracts are performing operationally and financially.</li> </ul> <p><b>Risk</b> Contracts are not managed in a consistent and robust manner.</p>	<p>Implement contract management systems and processes that allow consistent measurement of performance and value for money in line with the Council's objectives and savings targets.</p> <p>Collect customer and supplier feedback in order to :</p> <ul style="list-style-type: none"> <li>• help monitor contract compliance</li> <li>• support strategy development</li> <li>• measure benefits, including savings obtained.</li> </ul>				

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R2 2019-20	<p>NCC does not have:</p> <ul style="list-style-type: none"> <li>a Contract Management Policy that adopts good practice, maximises financial and operational performance whilst minimising risk</li> <li>a common standards and guidance toolkit which illustrates good contract management</li> </ul> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>A Contract Management Policy and associated standards and guidance toolkit should be developed to ensure that all contracts are managed in a consistent and compliant manner.</p> <p>This should be available to all contract managers.</p>	<b>High</b>	<p>Consider as part of the contract toolkit as the risks need to feed into the departmental risk registers</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by July 2022</p> <p>Head of Contracting and Procurement</p> <p>July 2022</p>

Page 110

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R3 2019-20	<p>It was not evident that contracts are being allocated based on the complexity of the contract as well as the level of competencies required.</p> <p>To date, there are no training courses available for contract managers. We understand that on the job training is being provided for contracts managed centrally.</p> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>Contracts should be allocated to managers with the appropriate skills.</p> <p>Comprehensive training courses should be developed for all contract managers to provide assurance of competence in contract management roles.</p>	Medium	<p>Explore the options for training colleagues on contract management this will require resources to provide or purchase</p> <p>Head of Contracting &amp; Procurement</p> <p>08/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>The central government commercial college provide free contract management training which has been reviewed by Contracting and Procurement and is suitable for officers undertaking contract management as the main part of their job. To be part of the toolkit from July 2022</p> <p>Head of Contracting and Procurement working with HR develop an NCC specific Contract Management Training pack to be available from April 2022 for all colleagues undertaking Contract Management</p> <p>Head of Contracting and Procurement</p> <p>April 2022</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R4 2019-20	<p>We have noted a lack of corporate governance processes and assurance for reporting.</p> <p>There are examples of accountability gaps as it is not always clear who “owns” a contract and who is responsible for ensuring the contract is implemented.</p> <p>Key information is not held centrally and regular management information is not obtained for all contracts managed. (R1 in the Procurement Audit 2019/20)</p> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>The level and location of scrutiny that contracts should receive should be determined at the contract procurement stage.</p> <p>A Contract Assessment Matrix should be introduced and completed to confirm the governance tier required.</p>	High	<p>As part of the contract toolkit an assessment matrix should be developed</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by July 2022</p> <p>Head of Contracting and Procurement</p> <p>July 2022</p>

Page 112



Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R5 2019-20	<p>No evidence could be seen that corporate contract risk management is in place.</p> <p>It was not evident that for all contracts:</p> <ul style="list-style-type: none"> <li>risks were considered at corporate level in advance</li> <li>risks were allocated appropriately to those able to manage them</li> <li>risk reviews were carried out regularly at corporate level</li> </ul> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>Procedures should be in place to ensure that all contracts are subject to a commercial risk assessment. There should be regular risk reviews across the whole contract portfolio to test and benchmark commercial risk and consider other risk themes such as supplier risk.</p> <p>A risk register should be developed and any departmental or corporate risks escalated as appropriate.</p>	High	<p>Consider as part of the contract toolkit as the risks need to feed into the departmental risk registers</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	No change <b>Outstanding</b>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource.. Aiming to have all actions implemented by July 2022</p> <p>Head of Contracting and Procurement</p> <p>July 2022</p>

Page 113

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
<p><b>R6</b> <b>2019-20</b></p>	<p>It was not possible to identify spend per contract. The financial system (Oracle) is currently unable to report these details.</p> <p>Services are able to purchase goods or services where no contract is in place and no approval to purchase has been obtained.</p> <p>Approval of payments is not automatically linked to contract management, which itself creates risk.</p> <p>It is our understanding that better spend controls are expected with the new Oracle Cloud. The proposed changes are expected to increase compliance with our obligations under both the Procurement Regulations 2015, as well as each partners CPRs and Financial Regulations.</p> <p><b>Risk</b></p> <p>Poor value for money</p>	<p>The new corporate financial system Oracle Fusion should ensure the following:</p> <ul style="list-style-type: none"> <li>• contract identification</li> <li>• contract details i.e. value, start and end dates, manager's name</li> <li>• contract creation only if there is relevant approval</li> <li>• approval to spend only if there is contract in place</li> <li>• approval of payments should be automatically linked to contract</li> <li>• reporting facilities to evidence spend by contract and business area</li> </ul>	<p><b>High</b></p>	<p>The implementation of Contract Purchase Agreements will ensure spend is linked to contracts and will be implemented by Procurement as part of Oracle Fusion.</p> <p>Head of Contracting &amp; Procurement</p> <p>10/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>This has been implemented as part of oracle fusion and needs colleagues to follow procedures for CPAs currently significant non-compliance which is being raised with CLT.</p> <p>Review following CLT on 15/09/21.</p> <p>Significant improvements in compliance noted since CLT and Senior Leadership Forum. Spend analysis work being undertaken as part of Transformation and actions taken as necessary.</p> <p>Review April 2022</p> <p>Head of Contracting and Procurement</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R7 2019-20	<p>We have noted that contract management advice is generally not provided. It does not form a part of the current decision making process.</p> <p>This could be beneficial in allocating contract management appropriately and should ensure early involvement where necessary of central resource.</p> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	Contracting advice should be provided as part of the decision making process.	Medium	<p>This will require significant resource so options appraisal to be undertaken</p> <p>Head of Contracting &amp; Procurement</p> <p>04/2020</p>	No change <b>Outstanding</b>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by</p> <p>July 2022</p> <p>Head of Contracting and Procurement</p>

Page 115

### Client Responsibilities

- Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested
- Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.

**Levels of Assurance**

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

<b>Significant Assurance</b>	There is a generally sound system of control designed to meet the organisation’s objectives and that controls are being applied consistently in the areas reviewed.
<b>Moderate Assurance</b>	Generally a sound system of internal control designed to achieve the organisation’s objectives with some exceptions and / or evidence of non-compliance with some controls that may put some of the system objectives at risk
<b>Limited Assurance</b>	Weaknesses identified in the procedures and controls in key areas and / or non-compliance with key procedures and controls which constitutes a risk to the achievement of the organisation’s objectives
<b>No Assurance</b>	Poor system of internal control or consistent non-compliance with key controls which could result in failure to achieve the organisation’s objectives

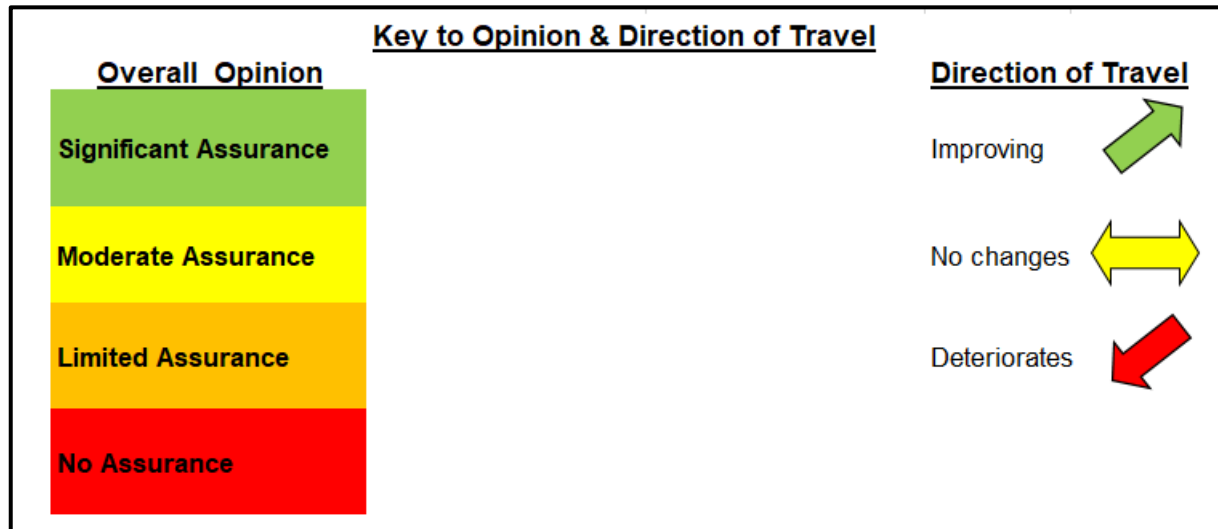
Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

**Categorisation of Recommendations**

The recommendations within this report have been categorised by Internal Audit as:

- High Priority**      A weakness where there is substantial risk of loss, fraud, impropriety, poor VFM or failure to achieve organisational objectives. Such risks could lead to an adverse impact on the business
- Medium Priority**      A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor VFM. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
- Low Priority**      Weaknesses that individually have no significant impact but where management would benefit from improved controls and / or have the opportunity to achieve greater effectiveness and / or efficiency.

In all cases, Internal Audit will follow up implementation of the recommendations by the agreed date.



This page is intentionally left blank

## Value of decisions sampled within the Procurement Dispensations 2021/22 Internal Audit review

Num.	Division	Directorate	Main factors causing dispensation	Value of decision
4194	Waste Collection & Disposal	Resident Services	Poor planning Poor communication Failure to track & monitor contracts	£77,458
4096	Strategy, Performance, Marketing & Communications	Finance & Resources	Poor planning Poor communication Failure to track & monitor contracts	£177,000
4093	Public Health	People	Covid-19 pressures	£99,230
4155	Community Protection	Resident Services	Poor communication	£29,100
4088	Education Services	People	Poor compliance No challenge	£66,000
4086	Planning, Regeneration & Housing	Growth & City Development	Poor planning Poor communication	£1,572,000
4224	Carbon Reduction, Sustainability & Energy Services	Growth & City Development	Poor compliance No challenge	£46,040
4173	Major Projects	Growth & City Development	Poor compliance No challenge	£85,000
4169	Public Health	People	Covid-19 pressures No challenge	£51,939
4170	Major Projects	Public Health	Poor planning Poor communication No challenge	£47,900
4165	Planning, Regeneration & Housing	Growth & City Development	No challenge	Exempt
4100	Sport & Culture	Resident Services	Conditions of grant	£704,673
4118	Community Protection	Resident Services	No challenge	£580,614
4089	Public Health	People	Covid-19 pressures Poor planning Poor communication	£42,905
4091	Public Health	People	Poor planning Poor communication	£45,068

This page is intentionally left blank



**Audit Committee – 26<sup>th</sup> November 2021**

<b>Title of paper:</b>	Retender of External Audit for 2023/24 to 2027/28	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy – Interim Corporate Director of Finance & Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Shail Shah Head of Audit & Risk	
<b>Other colleagues who have provided input:</b>	None	
<b>Does this report contain any information that is exempt from publication? No</b>		
<b>Recommendation(s):</b>		
1.	To endorse the proposed course of action, which is that Council accepts Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.	

**1. Reasons for recommendations**

- 1.1 This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24. This report is due to be taken to Full Council on 10th January 2022.

**2. Background**

- 2.1 During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. At Nottingham City Council the decision must be made by Full Council by 10<sup>th</sup> January in order to be able to respond to PSAA by the deadline of 11<sup>th</sup> March 2022.

**The Role of the Appointed Auditor**

- 2.2 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 2.3 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 2.4 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

- 2.5 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 2.6 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

### **Risk Management**

- 2.7 The principal risks are that the Council:
- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
  - does not achieve value for money in the appointment process.
- 2.8 These risks are considered best mitigated by opting into the sector-led approach through PSAA as set out in the assessment of options section below.

### **Current Arrangements**

- 2.9 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. Following a national procurement exercise PSAA appointed Grant Thornton to audit the accounts for these periods. Should the Council choose to opt in to national arrangements PSAA would select the Council's auditor following a procurement exercise. PSAA's current policy on rotation of key staff would preclude the selection of the current Key Audit Partner from 2023 and in practice PSAA prefers shorter terms for audit firm appointments too.
- 2.10 For administrative convenience, PSAA requires audit firms to bill opted-in bodies on its behalf and to act as its agents to collect fees. PSAA invoices firms at the scale fee adjusted for the firm's agreed remuneration. Firms are required to update quarterly work in progress returns with the amount of work they have completed in the quarter to establish the percentage complete. The revenue received by PSAA is to cover directly the costs of the auditors and the operating expenses of PSAA. If at the end of the period there is a remaining surplus or a shortfall, as a result of expenses being over or under-estimated, revenue is adjusted to the actual amount receivable from the opted-in bodies and payable by PSAA in total. Surpluses have been paid out to opted in bodies in recent years.

### **Options**

- 2.11 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options;
- To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).
  - To appoint its own auditor, which requires it to follow the procedure set out in the Act.
  - To act jointly with other authorities to procure an auditor following the procedures in the Act.

2.12 In order to opt in to the national scheme, a council must make a decision at a meeting of the Full Council.

### **The national auditor appointment scheme**

2.13 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. PSAA is now preparing to undertake a procurement for the next appointing period, covering audits for 2023/24 to 2027/28, and it has invited eligible bodies to opt in. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

2.14 In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.
- supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

2.15 If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

### **The next audit procurement**

2.16 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);

- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.

2.17 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

2.18 The scope of a local audit is determined by the Code of Audit Practice (currently published by the National Audit Office - MHCLG's Spring statement proposes that overarching responsibility for Code will in due course transfer to the system leader, ARGA, the new regulator being established to replace the FRC.), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt in to PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

#### **Appointment by the council itself or jointly**

2.19 The Council may elect to appoint its own external auditor under the Act, which would require the council to;

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
- Manage the contract for its duration, overseen by the Auditor Panel.

2.20 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each body under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

2.21 Initial discussions with Heads of Audit at Core Cities indicates that only local partnering is being considered within this option, with these Councils retaining existing arrangements where the course is known. Leicestershire County Council, which partners with the Council for transactional HR and Finance, proposes to opt in. For other councils in Nottinghamshire, the proposed course of action, where known, is to opt in.

### **Pressures in the current local audit market and delays in issuing opinions**

- 2.22 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.
- 2.23 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.
- 2.24 During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
- 2.25 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, across the sector, many more fee variation claims have been needed than in prior years.
- 2.26 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.
- 2.27 None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

### **Assessment of options and officer recommendation**

- 2.28 Whilst every option carries some risk, it can be seen that opting in to the national auditor appointment scheme minimises risks for the following reasons:

- 2.29 If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. Neither elected members nor officers would have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
- 2.30 Alternatively, if the Council were to join with other authorities to establish a joint auditor panel, this would need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 2.31 There is little enthusiasm at other councils contacted for establishing joint procurement of external audit.
- 2.32 Both these options would be
- at risk of not being able to procure an auditor in good time and not meeting deadlines set out in legislation
  - at risk of not being able to source these independent panel members. Opting in to the national scheme removes this risk;
  - subject to early costs in respect of Auditor Panel and procurement process, which are incorporated into the auditor fee when opting in to the national scheme;
  - subject to the cost of ongoing oversight of the contract, which is incorporated into the auditor fee when opting in to the national scheme;
  - more resource-intensive processes to implement for the council, including an additional body (the auditor panel) to service, and ongoing oversight of the contract;
  - likely to result in a more costly service, without the bulk buying power of the sector-led procurement;
  - more difficult to manage quality and independence requirements.
- 2.33 Nor would they enable the Council to influence the scope or quality of the audit, as it is fixed by the regulatory regime.
- 2.34 The national offer provides the appointment of an independent auditor with
- guaranteed compliance with legislative framework
  - the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement;
  - no early costs
  - significantly less administrative cost to the council;
  - the opportunity to influence the market that a national procurement provides by acting with other councils;
  - reduced procurement costs compared to local procurement due to economies of scale such as shared costs;
  - management of quality and independence requirements through PSAA's existing policy and administrative arrangements

2.35 In addition organisations opted in to the PSAA scheme are given free access to the Local Audit Quality Forum and webinar events on key topics. These resources have been useful to Internal Audit.

#### **Next steps**

2.36 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole), except where the authority is a corporation sole.

2.37 The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).

2.38 PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

2.39 The Council must publish details of the appointment within the period of 28 days beginning with the day on which the appointment is made (in January 2023).

#### **Financial Implications:**

2.40 The PSAA fees are incorporated in external audit charges.

2.41 There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

2.42 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

2.43 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

### **3 Legal and Procurement comments (if applicable) including risk management considerations:**

3.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

3.2 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant council is a local council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements. A notice detailing the appointment and length of the appointment must be published on the Council's website within 28 days of the appointment being made.

- 3.3 Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 3.4 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

Beth Brown, Head of Legal and Governance  
22 October 2021

**4 Background papers other than published works or those disclosing exempt or confidential information**

4.1 None

**5 Published documents referred to in compiling this report**

5.1 None



**Audit Committee – 26 November 2021**

<b>Title of paper:</b>	Treasury Management 2021/22 Half Yearly Update	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy, Interim Corporate Director of Finance & Resources and S151 Officer	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Glyn Daykin, Senior Accountant – Treasury Management email: glyn.daykin@nottinghamcity.gov.uk	
<b>Other colleagues who have provided input:</b>	Members of Treasury Management Panel: Clive Heaphy, Interim Corporate Director of Finance and Resources and S151 Officer Lisa Kitto, Deputy 151 Officer and Finance Strategic Lead Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader	
<b>Does this report contain any information that is exempt from publication?</b> No		
<b>Recommendation(s):</b>		
1.	To note the treasury management actions taken in 2021/22 to 30 September 2021.	

**1 Executive Summary**

1.1 The Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices. The 2021/22 Treasury Management Strategy was approved by Full Council on 8 March 2021. This report sets out details of treasury management actions and performance from 1 April 2021 to 30 September 2021. The key points are:-

- No new long-term borrowing has been undertaken in the period to 30 September 2021, the balance of external loans debt has decreased by £22.814m to £909.919m which is ahead of the original forecast within the Voluntary Debt Reduction Policy (section 4.3);
- The average interest rate payable on the debt portfolio increased from 3.379% at 31 March 2021 to 3.433% at 30 September 2021 (section 4.3);
- no debt rescheduling had been undertaken to 30 September 2021 (section 4.4);
- the average return on investments to 30 September 2021 was 0.147% against a benchmark rate of -0.08% (7-day LIBID) (section 4.7);
- there has been compliance with Prudential Indicators for 1 April to 30 September 2021 (section 4.8);
- CIPFA released the stage 2 consultation on proposed changes to the Prudential Code and Treasury Management Code with the final updated guidance expected to be issued by the end of 2021 (see section 4.11.1)

**2. Reasons for recommendations**

2.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year.

2.2 The CIPFA Prudential Code requires local authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. It is considered that the City Council's Audit Committee is the most appropriate body for this function. In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices.

### 3. Background

#### 3.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

#### 3.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. Receipt by Executive Board of a Mid-year Review Report and an Annual Report, covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

3.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- A review of any debt rescheduling undertaken during 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021/22

#### 4. Treasury Management Activity to 30 September 2021

##### 4.1 The Economy and Interest Rates During 2021/22

###### Growth and Inflation

The recent product and labour shortages appears to be holding back activity which may prevent GDP from returning to its pre-pandemic peak until next year and is adding to the upwards pressure on inflation.

The Monetary Policy Committee (MPC) expect inflation to rise to 4% at the close of 2021. Although it is expected that most of the shortages are to be temporary there is concern that underlying price pressures in the economy are looking more likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

The Monetary Policy Committee (MPC) kept Bank Rate unchanged at 0.10% and made no changes to the quantitative easing (QE) programme due to finish this year at a total of £895bn. The MPC agreed that "some modest tightening of monetary policy over the forecast period was likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term".

The Consumer Price Index inflation % (CPI) has increased 2.30% to 3.00% in the 6 months to 30 September 2021.

###### Forecast Interest rates

The Council's treasury advisor, Link Group, has provided the following forecast. (PWLB rates are certainty rates):

Link Group Interest Rate View		29.9.21								
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

Additional notes by Link on this forecast table: -

- LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.

**Appendix B** shows the money market interest rates, the PWLB borrowing rates for the half-year to 30 September 2021 and a forward view for PWLB loan rates.

## 4.2 Local Context

4.2.1 The Treasury Management Strategy Statement (TMSS), for 2021/22 was approved by Full Council on 8 March 2021. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved as at 30 September 2021.

4.2.2 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need.

4.2.3 At 31/03/2021 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,411.6m.

The CFR is forecast to decrease by £8.9m to £1,402.7m by 31/03/2022 against the original CFR estimate for 31/03/2022 of £1,415.2m with reductions due to slippage and the Voluntary Debt Reduction Policy (VDRP) review of the capital program which included the delay/cancellation of some major schemes.

Table 1 below shows the original and expected financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This borrowing need may also be supplemented for maturing debt and other treasury requirements.

TABLE 1: CAPITAL EXPENDITURE	2021/22	2021/22
	Original Estimate £m	Revised Estimate £m
Total capital expenditure	181.841	173.11
Financed by:		
Capital receipts	12.516	10.866
Capital grants & Contributions	83.663	85.303
Internal Funds / Revenue (inc. Major Repairs Reserve)	43.372	35.859
Total financing	139.551	132.028
Borrowing requirement	42.290	41.082

Note to table: Original estimate was Q3 2020/21 used for the 2021/22 Treasury Management Strategy Report.

4.2.4 The decrease in estimated capital expenditure is due to slippage on capital projects including expenditure originally forecast to have been incurred in 2020/21. The associated financing of these schemes has also moved to the same forecast period as the expenditure.

### 4.3 Borrowing

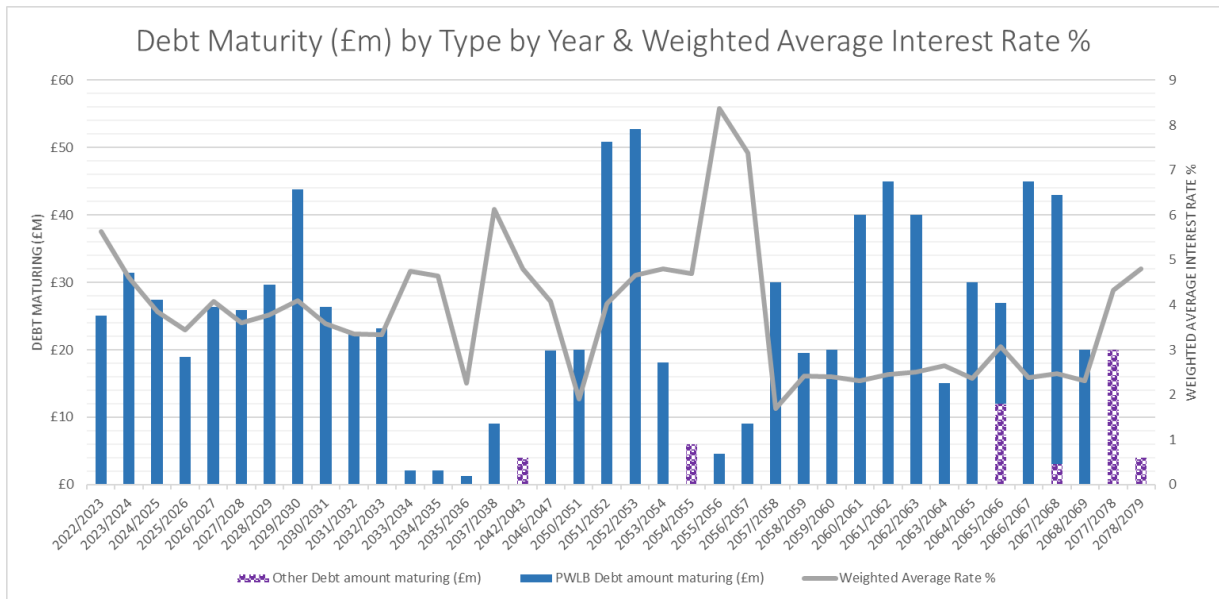
4.3.1 To finance the CFR the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 At 30/9/2021 the Council has reduced the balance of external loans by £22.8m since the balance at 31/3/2021 due to loans being repaid on maturity without replacement. The Council does not expect to increase borrowing in the 2<sup>nd</sup> half of 2021/22 based on the revised capital program and forecast cash flow requirements. As described in the Voluntary Debt Reduction Policy the level of external loans is expected to continue to reduce as existing loans mature without replacement. The CFR reduces due to the reductions in the capital program and as the council makes its approved minimum revenue provision (MRP) against prior years capital expenditure financed by borrowing.

4.3.3 **Table 2** summarises the Council's outstanding external debt at 30 September 2021 showing the value of debt and the average interest rate payable on the debt.

TABLE 2: DEBT PORTFOLIO					
DEBT	01-Apr-21		30-Sep-21		Change
	£m	Average Interest %	£m	Average Interest %	£m
PWLB borrowing	866.5	3.387	858.7	3.390	-7.8
Market loans inc LOBO	49.0	4.348	49.0	4.348	0
Temporary borrowing	17.2	0.219	2.2	0.100	-15.0
<b>TOTAL LOANS DEBT</b>	<b>932.7</b>	<b>3.379</b>	<b>909.9</b>	<b>3.433</b>	<b>-22.8</b>
Other inc PFI	181.3		175.7		-5.6
<b>TOTAL DEBT</b>	<b>1,114.0</b>		<b>1,085.6</b>		<b>-28.4</b>

The graph below shows the debt portfolio's maturity profile by loan type and the weighted average interest rates that are associated with the maturities in each period. This maturity profile is summarised in the Prudential Indicator for the Maturity Structure for Borrowing table shown in **section 4.8.3**.



4.3.4 At 30/09/2021, the Council had £1,085.6m of external borrowing including £175.7m of Private Finance Initiative (PFI) and lease liabilities. The Council continues to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of around £30m.

The Council's internal borrowing position at 31 March 2021 was £297.5m. This meant that c.24% of the overall capital borrowing need including prior year capital expenditure, but excluding PFI liabilities (known as the Underlying Borrowing Requirement or Loans Capital Financing Requirement), was not funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure.

The strategy of using internal borrowing avoids interest payable on external borrowing in the short term until actual new borrowing is taken or the borrowing requirement reduces. For example £300m borrowing would cost around £7m per year using an interest rate of 2.33% and a 25 year maturity loan profile (2.33% was average PWLB rate for 2020-21 for 25 years loans which broadly represents the debt portfolio's weighted average life).

The council expects to retain this internal borrowing position as a prudent and cost effective approach in view of the reducing CFR and the current economic climate but will continue to monitor this against the upside risk to gilt yields. A c.£10m reserve is maintained to smooth the impact of reducing the internal borrowing position should this be required to mitigate the risk of unexpected increases to interest rates.

The continuation of this existing strategy will further support managing the council's cost of financing in the coming years and supports the aims of the VDRP in reducing the Council's debt levels.

#### 4.3.5 Compliance with the Voluntary Debt Reduction Policy

**Table 3** below reflects the reductions in capital expenditure financed by borrowing and the capital receipt strategy in the forecast Capital Financing Requirement and external loans debt in the medium term. The table shows the forecast positions at year end.

<b>Table 3: VDRP Forecast Refresh</b>			
<b>Debt Measurement</b>	<b>VDRP Original Forecast £m</b>	<b>Qtr2 Actual &amp; Forecast £m</b>	<b>Movement (Under) / Over £m</b>
<b>CFR</b>			
2020/21	1,443.50	<b>1,411.60</b>	<b>(31.90)</b>
2021/22	1,434.20	1,402.84	<b>(31.37)</b>
2022/23	1,390.60	1,350.56	<b>(40.04)</b>
2023/24	1,337.30	1,305.31	<b>(31.99)</b>
2024/25	1,272.50	1,243.92	<b>(28.58)</b>
<b>External Debt</b>			
2020/21	981.60	<b>932.80</b>	<b>(48.80)</b>
2021/22	991.00	900.94	<b>(90.06)</b>
2022/23	986.20	887.54	<b>(98.66)</b>
2023/24	954.80	864.46	<b>(90.34)</b>
2024/25	927.40	840.01	<b>(87.40)</b>

#### 4.4 Debt rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the PWLB continued to operate a spread of approximately 1% between “premature repayment rate” and “new loan” rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the debt portfolio and therefore unattractive for debt rescheduling activity. Market Loan rescheduling opportunities are very limited and unattractive due to the premiums chargeable on early repayments. No debt rescheduling has therefore been undertaken to date in the current financial year.

#### 4.5 Lender’s Option Borrower’s Options (LOBO) Loans

The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £14.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

#### 4.6 Housing Revenue Account (HRA) Treasury Management Strategy

4.6.1 From 1 April 2002, the Council’s HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time.

4.6.2 No further HRA loans have been taken in the first half of 2021/22. The HRA element of the CFR was £298.0m as at 31 March 2021 and was fully financed at an average rate of 4.49%. This includes £53.161m of long term fixed rate loans from the General Fund (known as internal loans). The HRA CFR is forecast to be £303.3m by 31 March 2022 and the HRA interest charge for 2021/22 is expected to be c.£13.076m.

4.6.3 In October 2018 the Government announced the HRA debt cap was to be abolished, but the now notional cap has been retained as a useful indicator. Any capital expenditure financed by borrowing would need to comply with the requirements of the

CIPFA prudential code including ensuring the scheme was affordable, sustainable and in proportion to the resources available.

#### 4.7 Investments

4.7.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also where cash flow forecasts permit to seek out value available in longer periods with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

4.7.2 As shown by the interest rate forecasts in section 4.1, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020 until the MPC meeting on 24th September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

4.7.3 **Creditworthiness:** Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Credit Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Credit Outlooks being reversed.

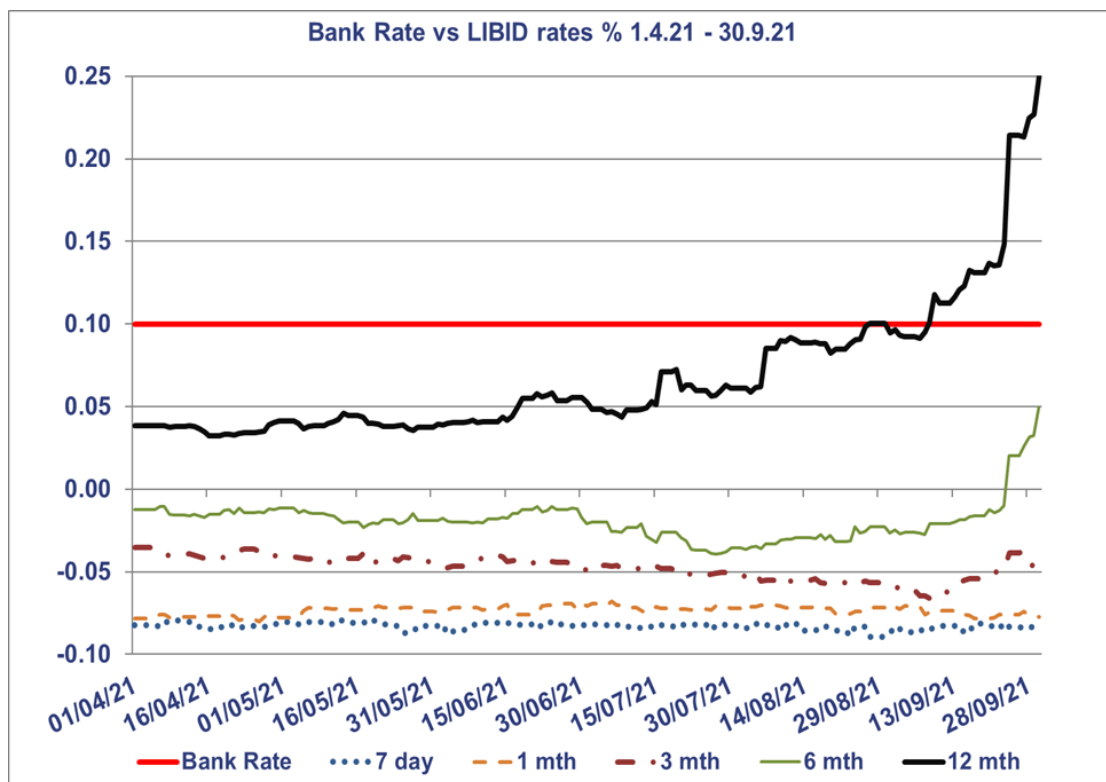
Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

The current investment counterparty criteria selection (including minimum long-term counterparty credit rating of A- across rating agencies Fitch, S&P and Moody's) approved in the TMSS is meeting the requirement of the treasury management function.

4.7.4 **Investment balances:** The average level of funds available for investment purposes during the first half of 2021/22 was £230.9m. This was significantly higher than anticipated but is expected to fall in the next 6 months. The increased investment balances has been seen across most local authorities and in part was due to Covid related Government Grants and receipts of upfront funding for schemes with other cash balances being mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

4.7.5 **Investment rates during half year ended 30th September 2021:** As shown below the rates use the traditional market method for calculating LIBID period % rates and given the ultra-low levels this year, this produces negative rates across some periods.





	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
<b>High</b>	0.10	-0.08	-0.07	-0.04	0.05	0.25
<b>High Date</b>	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
<b>Low</b>	0.10	-0.09	-0.08	-0.07	-0.04	0.03
<b>Low Date</b>	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
<b>Average</b>	0.10	-0.08	-0.07	-0.05	-0.02	0.07
<b>Spread</b>	0.00	0.01	0.01	0.03	0.09	0.22

**4.7.6 Investment performance year to date as at 30th September:** The Council held £246.7m of investments as at 30 September 2021 (£150.6m at 31 March 2021) and the investment portfolio yield for the half year was 0.145% against a benchmark (Average 7-day LIBID) of -0.08%.

The Council outperformed the benchmark by 22 bps. The budgeted investment return for 2021/22 is £0.133m, and performance for the year to date is £0.109m above budget mainly due to the higher than expected balances available for investment. These balances are expected to reduce significantly by the end of 2021/22.

LIBID as benchmark is likely to be replaced with sterling overnight index average % (SONIA) in 2022 with details to be provided once they are available.

**4.7.7 Appendix A** provides details of the Council's external investments at 30 September 2021, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

**Table 4** below summarises investment activity by type in 2021/22.

<b>Table 4: Investment Portfolio</b>	Balance on 01/04/2021 £m	Balance on 30/09/2021 £m	Avg Rate / Yield (%) Avg days to maturity as at 30/09/2021
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	20.0	89.8	0.19% / 126
- Local Authorities	85.0	79.0	0.18% / 151
Long term Investments	10.0	9.9	0.37% / 651
Money Market Funds	35.6	68.0	0.02% / 1
<b>Total Investments</b>	<b>150.6</b>	<b>246.7</b>	<b>0.15% / 122</b>
- Increase/ (Decrease) in Investments £m		96.065	

4.7.8 **Approved limits:** The approved limits within the Annual Investment Strategy have not been breached during the first 6 months of 2021/22.

#### 4.8 Compliance with Prudential Indicators

4.8.1 This report confirms compliance with the Prudential Indicators for 2021/22 set on 8 March 2021 as part of the Council's Treasury Management Strategy Statement.

4.8.2 The Council measures and manages its exposures to treasury management risks using the following additional indicators.

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The limits on variable rate interest rate exposures are:

	2020/21 £m	2021/22 £m	2022/23 £m
Upper limit on variable interest rate exposure	350	300	300
Actual	48.1	33.0	

4.8.3 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	1%
12 months and within 24 months	0%	25%	3%
24 months and within 5 years	0%	25%	9%
5 years and within 10 years	0%	25%	17%
10 years and within 25 years	0%	50%	7%
25 years and within 40 years	0%	50%	32%
40 years and above	0%	50%	31%

4.8.4 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2020/21 £m	2021/22 £m	2022/23 £m
Limit on principal invested beyond year end	100	100	100
Actual	10	10	

**4.8.5 Operational Boundary and Authorised Limit for External Debt:** The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The table below shows the expected debt position during 2021/22.

	<b>2021/22 Original Estimate £m</b>	<b>Current Position £m</b>	<b>2021/22 Revised Estimate £m</b>
Borrowing	992.0	909.9	900.9
Other long term liabilities*	170.7	175.7	170.7
<b>Total debt (year end position)</b>	<b>1,162.7</b>	<b>1,085.6</b>	<b>1,071.6</b>
<b>Operational Boundary for external debt</b>	<b>1,415.2</b>	<b>1,415.2</b>	<b>1,415.2</b>
<b>Authorised limit for external debt</b>	<b>1,445.2</b>	<b>1,445.2</b>	<b>1,445.2</b>

\* Includes PFI and Leases liabilities

## 4.9 Treasury Management Reserve

4.9.1 The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year including new technical accounting entries relating to IFRS 9 (which stipulates the treatment of expected loss model based impairments on Treasury related investments and capital investments such as loans to third parties and financial guarantees).

A reserve is maintained for interest equalisation specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated including the unwinding of the internal borrowing position detailed in section 4.3.

The balance on these reserves at 30 September 2021 is **£22.163m**. There is a **£4.024m** budget transfer to the MRP Transformation of Services reserve as part of the planned 2021/22 transfer as per the prior year decision to change MRP policy.

Based on the 6 months to 30 September 2021 there are no expected loss impairments expected in 2021/22 in relation to treasury investments.

## 4.10 Risk Management

4.10.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management

risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

4.10.2 The treasury management risk register's overall risk rating at 30 September 2021 was 5.33, Likelihood = unlikely, Impact = moderate is a reduced rating against the 31 March 2020 rating, but remains over the targeted risk rating. The risk rating reflects risks around not achieving the aims in the Voluntary Debt Reduction Policy, the impacts of Covid-19, the working from home arrangements and the changes to the PWLB lending arrangements. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

#### **4.11 Other Issues**

4.11.1 CIPFA have released proposed changes to the current Treasury Management Code and Prudential Code. Both sets of proposed changes are now in stage 2 period of consultation which closes on 16 November 2021, with a planned publication of the revised guidance expected by the end of 2021. There will be a requirement to apply the principles from the publication date with full adoption expected from 2022/23.

The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; and amendments to Maturity Structure of Borrowing indicator. To introduce Investment Management Practices (IMPs) for reporting on investments which are not for treasury management purposes.

The Prudential Code key proposals – revision to Borrowing in Advance of Need criteria, including in respect of primarily yield generating investments; inclusion of proportionality in key capital expenditure objectives; process and governance sections to incorporate further changes in respect of commercial activity; three new prudential indicators – External Debt to Net Revenue Stream (NRS), Income from Commercial and Service Investment to NRS, Liability Benchmark; Proposal to abolish Gross Debt to Capital Financing Requirement indicator.

The implications of the revised guidance once published will be reported to councillors at the next opportunity.

#### **5. Background papers other than published works or those disclosing exempt or confidential information**

5.1 None

#### **6. Published documents referred to in compiling this report**

6.1 Treasury Management Strategy 2021/22 and Capital Investment Strategy 2021/22 (including the Voluntary Debt Reduction Policy)

6.2 Nottingham City Council Recovery & Improvement Plan

6.3 Money Market and PWLB loan rates

6.4 Treasury Management in the Public Services Code of Practice 2017–CIPFA

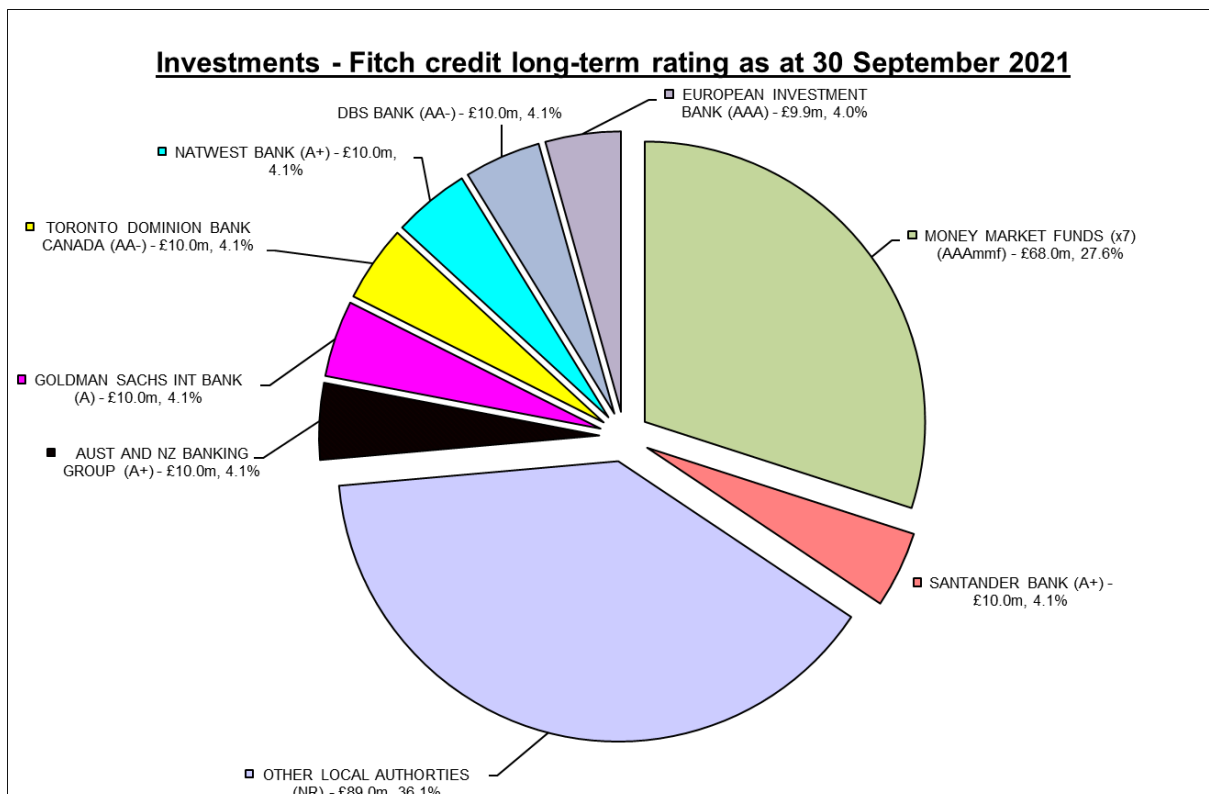
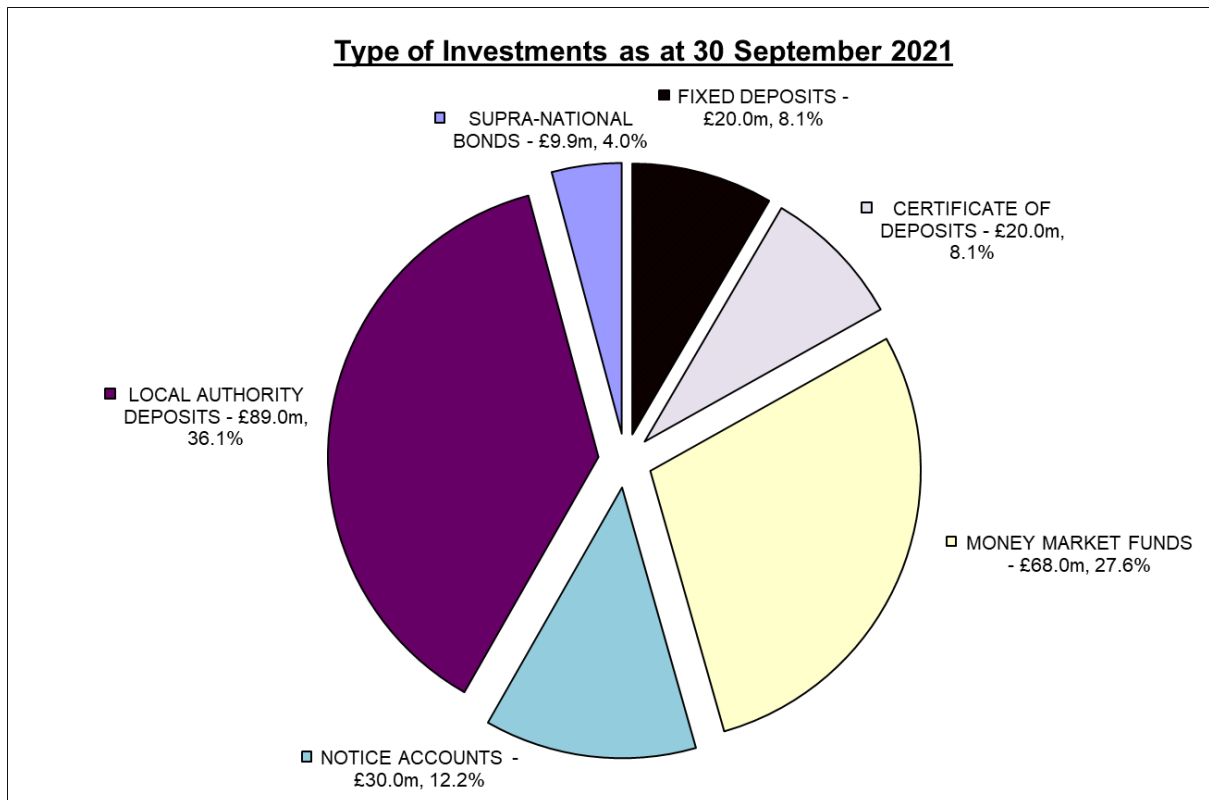
6.5 Prudential Code 2017-CIPFA

- 6.6 Treasury Management in the Public Services Guidance Notes 2018 – CIPFA
- 6.7 Statutory guidance on local government investments 3rd Edition 2018
- 6.8 Statutory guidance on Minimum Revenue Provision (MRP) 2018

This page is intentionally left blank

## APPENDIX A

The charts below provide details of the Council's external investments at 30 September 2021, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

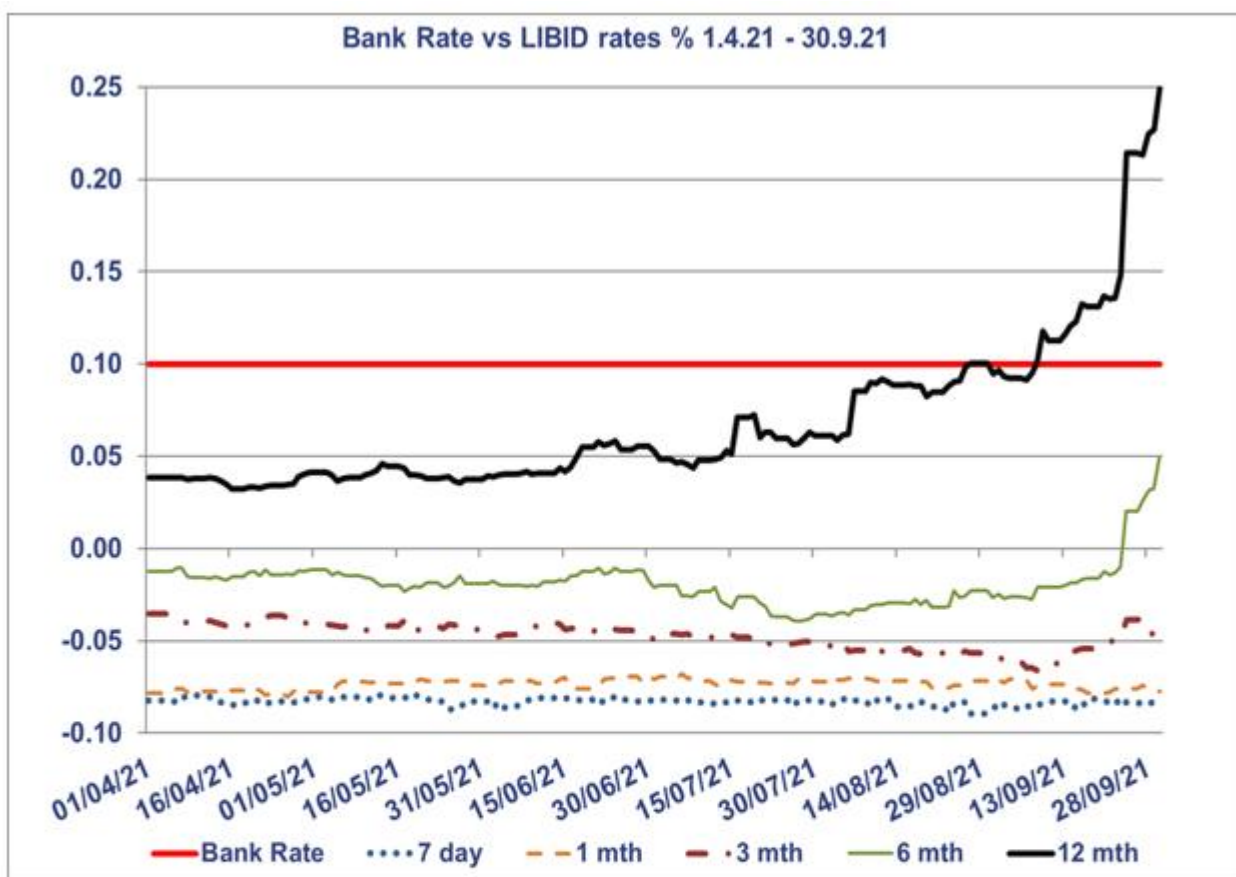


This page is intentionally left blank



**Money Market Data, PWLB Rates and an Economic Update**

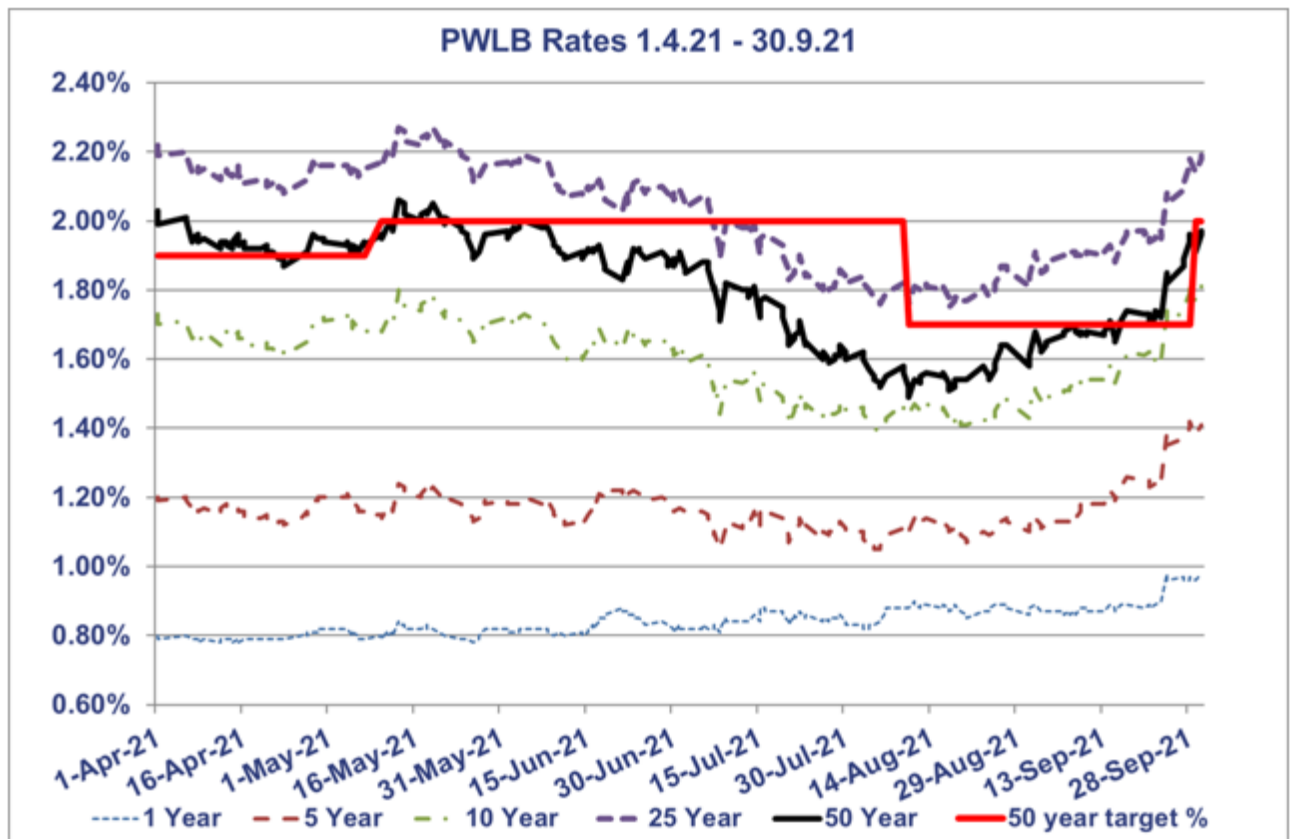
The table and graph below shows the UK Bank of England Bank Rate and benchmark rates within the short term money markets for the last 6 months.



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
<b>High</b>	0.10	-0.08	-0.07	-0.04	0.05	0.25
<b>High Date</b>	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
<b>Low</b>	0.10	-0.09	-0.08	-0.07	-0.04	0.03
<b>Low Date</b>	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
<b>Average</b>	0.10	-0.08	-0.07	-0.05	-0.02	0.07
<b>Spread</b>	0.00	0.01	0.01	0.03	0.09	0.22

## PWLB certainty rates 1 April 2021 to 30 September 2021

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:



	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	0.78%	1.05%	1.39%	1.75%	1.49%
<b>Date</b>	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
<b>High</b>	0.98%	1.42%	1.81%	2.27%	2.06%
<b>Date</b>	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
<b>Average</b>	0.84%	1.16%	1.60%	2.02%	1.81%
<b>Spread</b>	0.20%	0.37%	0.42%	0.52%	0.57%

## Economics update and Interest Rate Forecast

### Monetary Policy Committee

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.
- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.
- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
  3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

### Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 29<sup>th</sup> September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View	29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<b>BANK RATE</b>	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

*Additional notes by Link on this forecast table: -*

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*

## **The balance of risks to the UK economy: -**

The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

### **Forecasts for Bank Rate**

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1<sup>st</sup> October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

### **Forecasts for PWLB rates and gilt and treasury yields**

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?
- The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

### **Gilt and treasury yields**

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden’s, and the Democratic party’s determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the \$900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

- A fast vaccination programme has enabled a rapid opening up of the economy.
- The economy had already been growing strongly during 2021.
- It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
- And the Fed was still providing monetary stimulus through monthly QE purchases.
- These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of “substantial further progress towards the goal of reaching full employment”. However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the

concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. **As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

- There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

### **A new era – a fundamental shift in central bank monetary policy**

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.

The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.

**For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.**

Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.

Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt

**Audit Committee - 26 November 2021**

<b>Title of paper:</b>	Companies governance update – Recovery and Improvement Plan Theme three – project two (governance)	
<b>Director(s)/ Corporate Director(s):</b>	Clive Heaphy – Interim Corporate Director Finance and Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Ian Edward – Strategic Advisor on Companies	
<b>Other colleagues who have provided input:</b>	None	
<b>Date of consultation with Portfolio Holder(s) (if relevant)</b>	none	
<b>Does this report contain any information that is exempt from publication?</b> No		
<b>Relevant Council Plan Key Outcome:</b>		
Clean and Connected Communities	<input type="checkbox"/>	
Keeping Nottingham Working	<input type="checkbox"/>	
Carbon Neutral by 2028	<input type="checkbox"/>	
Safer Nottingham	<input type="checkbox"/>	
Child-Friendly Nottingham	<input type="checkbox"/>	
Healthy and Inclusive	<input type="checkbox"/>	
Keeping Nottingham Moving	<input type="checkbox"/>	
Improve the City Centre	<input type="checkbox"/>	
Better Housing	<input type="checkbox"/>	
Financial Stability	<input type="checkbox"/>	
Serving People Well	<input type="checkbox"/>	
<b>Summary of issues (including benefits to citizens/service users):</b> Update on progress and future activities		
<b>Recommendation(s):</b>		
<b>1</b>	To note the progress and future plans for ongoing development and implementation of companies' governance in accordance with the recovery and improvement plan.	

**1. Reasons for recommendations**

- 1.1 The work already undertaken to review and revise the arrangements for the governance of Council owned companies will continue, and be split between Theme Five: Constitution (Governance) and this theme (three)
- 1.2 The Companies Theme focuses on the development of Council policy with regard to executive and non-executive directors, establishing a clear role for senior officers through a Shareholder Executive function, ensuring all forms of parental support to companies within the group are subject to effective controls and clear decision making, and supporting the Companies Governance Committee and the Council more generally.

- 1.3 Policies draw on best practice guidance from Lawyers in Local Government, the Institute of Directors and the Financial Reporting Council UK Corporate Governance Code. The implementation of policies requires new processes, to be developed and governed by the Shareholder Executive function. Policies are in development and will be brought to Companies Governance Executive Committee for endorsement.
- 1.4 The Council has allocated additional capacity to help manage the relationship and interdependencies between its companies and itself. As part of this it has created a corporate shareholder unit and standardised company reporting to create greater clarity within these relationships. Although established; to be fully embedded into Council governance, and the Boards of the companies themselves, further work and resources will be required in early 2022.
- 1.5 The implementation plan to embed revised governance is in progress, examples of some of the activities and controls being introduced are set out below:

Annually:

- Assessment of shareholder agreement & reserve matters
- Directors skill and capabilities assessment & board effectiveness review
- Company business plan evaluation
- Company risk plan evaluation
- company statement of compliance against FRC UK Code
- Assess Shareholder team competencies and identify development needs

Quarterly:

- Monitor external audit recommendations
- Monitor internal audit plan and results
- Risk workshop sessions - review company risk register and update NCC corporate risk register

Monthly:

- Informal meeting with MD/ FD - standing agenda items plus tracking of changes/ developments
- Evaluate finance and risk returns from each company
- Attend Company Boards as NCC observer
- NCC out-turn variance report for companies
- Confirm planned workload with each Shareholder Representative and team member

**2. Other options considered in making recommendations**

2.1 None

**3. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)**

3.1 None

**4. Published documents referred to in this report**

4.1 Council Recovery and Improvement Plan January 2021



**Audit Committee – 26/11/2021**

<b>Title of paper</b>	Recovery and Improvement Culture Update	
<b>Director(s)/ Corporate Director(s):</b>	Richard Henderson – Director of HR, and EDI Clive Heaphy – Interim Corporate Director Finance and Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Titu Hayre Bennett – Head of Transformation, HR	
<b>Other colleagues who have provided input:</b>	None	
<b>Recommendation(s):</b>		
<b>1</b>	To note the actions referred to in relation to embedding good practice outlined in 1.5 and 1.7 in the Internal Audit Review Report of Culture/Ethics to Audit Committee on the 28/5/2021	
<b>2</b>	To note that future updates and assurance on the Culture work in the Recovery and Improvement Plan will be undertaken through the existing monitoring and assurance that happens via the Improvement and Assurance Board.	

**1. Background**

1.1 The committee requested a culture update on 6 areas - **Governance, Risk , Decision making, Holding to account , Challenge and Appropriate and timely actions** as referred to of the Internal Audit Review of Culture/Ethics report of the 28/5/2021. These areas for improvement and actions required are reflected throughout the themes of the NCC Recovery and improvement Plan. This report focuses on the enabling actions that will support the changes in the future culture of NCC

**2. Actions re the above areas on embedding good practice to move the culture in NCC**

2.1 **Governance.** In relation to companies NCC has brought in consultancy expertise to help build capability around sector skills on company boards, we have also provided training for relevant members and officers on companies. The responsibilities for shareholder reps have been made explicit to support the capability development. In relation to complicated, overlapping executive and senior officer roles and resulting overlapping responsibilities, we have through our top level restructure, made roles and responsibilities very clear. We are currently working with the LGA using the Decision Making Accountability tool (DMA) approach to review organisational structures and ways of working. This will ensure that future organisational design reflects clear accountabilities and responsibilities for all roles. The Audit Committee and O&S functions have been strengthened with support and development of key individuals leading these areas.

2.2 **Risk.** Steps have been taken ensure risk is managed through containing the capital expenditure levels and sign off routes and work to ensure clarity of remit for companies. Dialogue at CLT and DLTs around risk is more prevalent.

- 2.3 **Decision making.** To support an evolving culture around consistency in decision making, members and officers have undertaken learning in the member officer protocol, the learning takes people through the roles of officers and members and how these are different and complementary. Members have had a focused workshop with the LGA around the member officer protocol. Development has also been provided on decision making arrangements for members and managers, through e learning and/or briefings. Business cases are required for key decision making, the transformation work in the organisation has accelerated this practice and will become embedded in time.
- 2.4 **Holding to account.** Work has been undertaken to ensure that the scrutiny and monitoring functions are robust and the work of companies is effectively monitored. There is clear mechanism for setting targets and goals for the CEX, drawn down from the renewed strategic Council Plan, including external moderation for performance appraisal. There is a new individual performance appraisal framework for all SLMG roles, the CEX goals and key council plan outcomes are clearly cascaded to the corporate directors, directors and heads of service. Our new NCC behaviours support holding others to account.
- 2.5 **Challenge.** There is a climate now in NCC that is encouraging discourse and challenge between members and senior officers around key issues, the development outlined above in relation to roles and responsibilities and decision making enable this. The revised Constitution underpins the role of Statutory Officers going forward. A coaching programme for Corporate Directors and the CEX will be commissioned in early 2022, a political sensitivity course will also be commissioned for all of SLMG. Both these learning interventions will support the capability of officer leaders to support and challenge effectively.
- 2.6 **Appropriate and timely actions.** A Transformation Plan is being developed with the new Interim Director of Transformation, this work is happening at pace, sprint activity has been undertaken in a number of key areas, to inform key transformational work. PWC have been working with NCC to drive this activity, adding needed capacity and capability to support the pace. The Executive Director of Finance and Resources has prioritised the delivery of a sustainable MTFP and has made this the subject of regular briefings and awareness raising with officer and members, to instil the required financial sustainability mind-set
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 Nottingham City Council Recovery and Improvement Plan

**Audit Committee – 26 November 2021**

<b>Title of paper:</b>	Risk Management and Corporate Risk and Assurance Register Update	
<b>Director(s)/ Corporate Director(s):</b>	Mel Barrett, Chief Executive Clive Heaphy, Interim Corporate Director of Finance & Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Shail Shah Head of Audit and Risk 0115 8764245 <a href="mailto:shail.shah@nottinghamcity.gov.uk">shail.shah@nottinghamcity.gov.uk</a> Caroline Stevens Principal Risk Specialist 0115 8764346 <a href="mailto:caroline.stevens@nottinghamcity.gov.uk">caroline.stevens@nottinghamcity.gov.uk</a>	
<b>Other colleagues who have provided input:</b>	John Slater, Group Auditor Jackie Handley, Insurance and Risk Manager Corporate Leadership Team Departmental Leadership Teams	
<p>The appendices to this report are exempt from publication under paragraph number three of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p> <p>It is not in the public interest to disclose this information because this may lead to potential for commercial disadvantage if sensitive commercial, financial or contractual information became available to potential contractors or partners.</p>		
<b>Recommendation(s):</b>		
<b>1</b>	To note and provide views and feedback on the progress made to review existing processes and further embed Risk Management across the Council.	
<b>2</b>	To note the Corporate Risk and Assurance Register and if appropriate identify any risks for further review with the risk leads at the Risk and Assurance working group.	

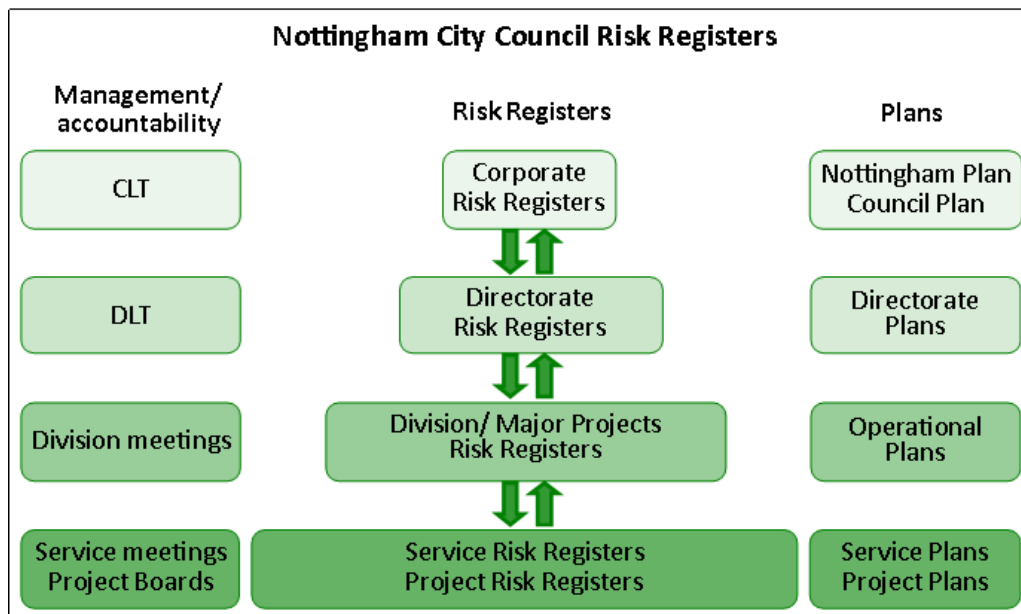
**1 Reasons for recommendations**

- 1.1 The Audit Committee's risk management role is to provide assurance on the adequacy of the Council's Risk Management Framework and the associated control environment by reviewing the mechanisms for assessing and managing risk. This includes ensuring that relevant managers undertake active risk management. This report presents an update on Risk Management and the latest review of the corporate risks faced by the Council.

**2 Background****2.1. Risk Management Approach**

2.1.1. It is the Council’s policy to proactively identify, understand and manage the risks inherent in our services and associated within our plans and strategies, so as to encourage responsible, informed risk taking.

2.1.2. A risk reporting process is in place to support escalation of risk throughout the Council as required. Risks can move between registers based on seriousness and required oversight and support. The escalation process is shown diagrammatically as follows:



2.1.3. Risks are reviewed by Directorate Leadership Teams (DLTs), Corporate Leadership Team (CLT) and Leadership Group quarterly and Executive Panel and Executive Board six monthly. The register is also reviewed by Audit Committee six monthly to provide assurance that the risk management process in place is appropriate.

## 2.2 Progress to date

2.2.1. A Risk and Assurance Register has been developed and was introduced last quarter to provide assurance that all key strategic risk areas are being controlled effectively alongside the management of high level operational risks. The register has been populated with risks agreed at DLTs and includes risks that were previously reported via the full Corporate Risk Register and High Level Corporate Risk Register. The aim of the register is to demonstrate the state of effectiveness of the arrangements in place to deliver objectives and in particular to highlight issues that need attention. The register follows the Three Lines of Defence Model and provides a summary for each strategic and operational risk of all key controls, how they are managed and internal and external assurances available for these.

2.2.2. Further work has been undertaken to engage with members on risk and the new register. Increased support has been provided to directors when briefing portfolio holders on related risks and discussing risks within their areas that are escalated for corporate management. The new Corporate Risk and Assurance Register has also been reviewed at Executive Panel and Executive Board ensuring members are sighted on the top risks to the Council and the Council’s risk profile and have an opportunity to input to the risks included.

2.2.3. Work to establish the Council's risk appetite has commenced. A survey led by Zurich, the Council's insurers has been completed by SLMG officers and results have been discussed by DLTs and CLT. The survey asked officers to assess the Council's current risk exposure across each area of the Council's risk categories and propose what they think the appetite should be for this. Feedback from the survey and discussions at DLTs and CLT and with members will form the basis for a risk appetite statement for the Council.

### **2.3. Next steps**

2.3.1. Following agreement of a risk appetite statement, a workshop will be arranged at Senior Leadership Forum to further embed risk management and the established risk appetite across the Council.

2.3.2. Further training for members is planned throughout 2021/22, including:

- Further training to Audit Committee members on how to scrutinise risk management approaches.
- Training for Portfolio Holders on risk management in their areas of responsibility.
- Training for members providing an overview of risk management.

2.3.3. Further support and training for divisions and services will be delivered as part of the transformation programme. This will include training sessions and register development across services to support embedding of risk management and escalation of risk throughout the Council.

2.3.4. Further development of the risk and assurance register format and presentation is planned in 2021/22.

2.3.5. Further review and update of the online training resources for risk management is planned in 2021/22.

### **2.4. Risk and Assurance register update**

2.4.1. Since the last review of the register by Audit Committee on 26 March 2021, the Audit Committee Risk and Assurance working group reviewed the new risk and assurance register in May 2021 and the latest quarterly update in October 2021. A summary of the top corporate risks to the Council and changes made to the register since the last review is attached as Appendix 1. The summary Corporate Risk and Assurance Register is attached as Appendix 2 for information.

## **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 None

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank