

Audit Committee – 28 February 2020

Title of paper:	Annual Governance Statement – Progress made to date on Issues Reported 2018/19 and Process for Producing 2019/20 Statement	
Director(s)/ Corporate Director(s):	Candida Brudenell, Corporate Director of Strategy & Resources	Wards affected:
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Other colleagues who have provided input:	Corporate Directors, Statutory Officers and Specialists	
Recommendation(s):		
1	Note the progress made to date in addressing the issues reported in the 2018/19 Annual Governance Statement, as detailed in this report.	
2	Note the process and timetable for compiling and completing the 2019/20 Annual Governance Statement, as detailed in Appendix 1 .	

1 Reasons for recommendations

- 1.1. This report supports main purposes of the Audit Committee as set out in its terms of reference which include to:
3. Provide independent review of the Council's governance, risk management and control frameworks.
 4. Oversee the financial reporting and annual governance processes.
 7. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.
- The associated functions are to
1. Review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
 19. Approve the Council's Statement of Accounts and associated governance and accounting policy documents
- 1.2. This report sets out the current position in respect of those issues reported in the 2018/19 Annual Governance Statement (AGS), and the process for compiling the 2019/20 AGS.
- 1.3. The National Audit Office's 2019 report on Local Authority Governance notes 3 key challenges:
- Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures.
 - Local checks and balances need to be effective in a more complex and less well-resourced context for local decision-making.
 - Effective governance arrangements are an important aspect of ensuring financial control at a time of financial pressure.

1.4. The council's local corporate governance code was updated in February 2017. The diagram below, taken from the International Framework, illustrates the various principles of good governance incorporated in the local code.

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



2 Update of Issues Reported

2.1 Issues worthy of note identified in the 2017/18 AGS have been revisited and an update of the latest position established and summarised below. We expect to receive an update to Fit for the Future shortly. The following items are subject to the budget report to Executive Board, in February, and an update will be provided at the meeting:

- Central Government Review of Local Government Funding and Balancing the Councils Budget (2.7 – 2.12)
- Addressing Risk and Future Challenges (2.13 – 2.21)
- Capital and Capitalisation (2.25)

(the previous position for these items is shown below)

EMSS

- 2.2. The Partners (Nottingham City Council and Leicestershire County Council) created 'East Midlands Shared Services' (EMSS) to deliver back office services in 2011 and invested in Oracle e-business suite (EBS) as the enabling technology platform for both EMSS and the Partner's retained corporate functions. The Partners make use of a wholly owned shared service centre, EMSS, which provides Finance, Procurement, HR and payroll services.
- 2.3. The Council has a positive relationship with EMSS and continues to work with them to identify system and process efficiencies. Nottingham City Council are working in partnership with EMSS to implement the new Enterprise Resource Planning (ERP) system which will require significant business changes and deliver enhanced functionality which will lead to further efficiencies for the partnership.

Fit for the Future

- 2.4. Currently Leicestershire County Council and Nottingham City Council share an Oracle e-business platform to support a range of functions. These include procurement and payments to suppliers, billing and income from customers, financial budgeting and reporting, general ledger, HR processes, employee contract management, payroll and a range of statutory and business reporting capabilities.
- 2.5. It is well recognised across both Councils and within EMSS that the current Oracle system has a number of deficiencies which, if addressed, would be likely to deliver efficiency and effectiveness benefits to the Councils. The implementation of the Oracle Cloud solution is ongoing and it is expected that part of the system will be operational no later than April 2020.
- 2.6. The expected key benefits are:
 - A New Chart of Accounts – better clarity of finances to inform decision making
 - No Purchase Order, No Pay – better control over budgets
 - Mobile Access – Oracle Fusion on the go
 - Expenses – simpler way to claim expenses
 - Contract Purchase Agreements and Categories – better visibility of where money is spent
 - New tools for chasing and collecting debt
 - Streamlined process for raising invoices and payments, cleansed customer data
 - Increased visibility of budgets within the system
 - Improvements in people management actions, including changes to hours, line manager, locations and even additional pay/ hours being directly in system and not having to use two or more systems
 - Single Sign On – easier for colleagues
 - Less E-Forms – more data input directly into system
 - Intuitive system – input data only once

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

- 2.7. The Council, in line with all other local authorities across the country, is continuing to operate in a challenging financial environment of reduced levels of Government funding.
- 2.8. Whilst the Government's Spending Round published on 4th September 2019 provided extra grant and flexibility to raise council tax precept for Social Care, the additional funding to Nottingham was insufficient to meet the increased local demand for a number of services, primarily Adult Social Care and Children in Care.
- 2.9. These increasing care pressures will have a significant impact on the Council's ability to fund other local services. It is expected that this continuing trend will mean that local taxpayers will increasingly need to fund local services.
- 2.10. The Government has only confirmed one-year funding with future levels dependent on the outcome of their next Spending Review in 2020 and the delayed changes to the financial settlement system. The introduction of these Fair Funding Review / 75% Business Rates changes is now expected to be in 2021/22. The Government has not yet provided detailed exemplifications of the likely impact of these significant policy changes on individual authorities

Balancing the Councils Budget

- 2.11. In order to respond to the insufficient funding and manage the increasing pressures the construction of the Medium Term Financial Plan (MTFP) has followed the following principles:
 - address demographic and service pressures;
 - reflect the longer term reductions in external funding since 2010/11 by reducing expenditure on certain activities;
 - support the City Council's determination to be efficient, improve performance and modernise the organisation;
 - minimise the impact of service reductions and changes on vulnerable citizens by protecting frontline services;
 - pursue commercialisation opportunities to generate income for the City Council.
- 2.12. In response to the current financial climate, the Council continues to work with council networks including the Local Government Association (LGA), Core Cities and the Special Interest Group of Municipal Authorities (SIGOMA) to campaign for a fairer funding settlement from central government for cities like Nottingham and other core cities

Addressing Risk and Future Challenges

Three-Year Medium Term Outlook

- 2.13. Given the challenging environment that the Council continues to operate in, the budget assumptions are subject to ongoing review in light of changing circumstances.

- 2.14. These issues have been brought together to produce a 3 year Medium Financial Outlook (MTFO) that is summarised in the 18th January 2020 report to the Executive Board.
- 2.15. This MTFO projects that, with the latest assumptions, the need for on-going significant cost reductions in the short to medium term will continue. While the budget for 2020/21 is balanced there are projected outstanding gaps of c£25m in 2021/22 and c£30m in 2022/23

Particular issues are as follows:

Insufficient Funding

- 2.16. The MTFP was updated in February 2020 and reflects the fact that despite continued insufficient Government funding, the Council expects demand for services to increase, particularly those which support children and the older population.

National Non-Domestic Rates (NNDR)

- 2.17. Localisation of NNDR has significant risks for the Council. Under the retention scheme, there are risks in calculating the share of the yield due to the level of unknowns including:
- The number of successful rating appeals that could be made in the year.
 - The number of bankruptcies and business going into administration.
 - The number of empty and new properties etc.
- 2.18. In mitigation, the Council works with Analyse LOCAL, which is a system developed to help local authorities to make sound and prudent estimates of its business rate income for the year ahead. It uses a wide range of historic rating information to provide the most reliable base possible on which to base decisions.

Brexit

- 2.19. There is a high level of uncertainty about the implications of leaving the European Union. Nottingham has benefitted from European funding in the past and it is unclear whether or what other similar sources of funds will be available. The UK's future trading arrangements are still as yet undecided but our assumption at the current time is that there will be no significant impairment on the value of the Council's assets due to the possible economic implications. This will be reviewed in light of any economic developments.

Commercial Income

- 2.20. Investments in commercial property have been made to raise income to offset reductions in funding. Given the uncertainties over the future performance of the economy as a result of Brexit, it is difficult to predict whether investments will be adversely affected. This is mitigated by making sound business cases at the outset, which are checked and challenged, and robust and rigorous monthly monitoring.

General Data Protection Regulation (GDPR)

2.21. This bill came into effect on 25 May 2018. This has a huge impact on all local authorities and carries fines of up to 4% of annual turnover for serious breaches of compliance. In mitigation, the Council has appointed a Data Protection Officer who will update all policies and privacy notices. Annual training sessions are delivered across the authority in addition to mandatory refresher e-learning. Further details are set out at 6.39 below.

Universal Credit

2.22. Universal Credit in Nottingham commenced in October 2018. As the Council needs to recover Council Tax and rents directly from residents, this gives rise to a potential increase in the level of bad debts and an increase in the cost of collection.

Housing Revenue Account – HRA

2.23. The HRA is balanced in medium term but there is a long-term gap on capital investment requirement. The Welfare Reform and Work Act 2016 required that social rents are reduced by 1% per annum for four years from 2016, with 2019 being the fourth year the Council has had to reduce rents.

2.24. 2020 is the first year of the increase in rents of CPI +1% which is more financially beneficial to the HRA and has enabled additional funding to be released to support the capital programme. There is an ambitious new build / acquisition programme which will provide 1000 new homes over the next 4 years. This will utilise capital receipts and prudential borrowing. Many of the programme schemes have long paybacks and early years deficit. The 30 year business plan is currently being refreshed.

Group Governance Arrangements

2.25. The Shareholder Board, now titled the Shareholder Advisory Panel and comprising solely of Council officers, has met on a number of occasions over the last year. In December 2019 the Leader of the Council established the Companies Governance Executive Sub-Committee and this was reported to, and endorsed by, Executive Board on 17 December 2019. That Sub-Committee will now provide an oversight of the Council's wholly owned companies and those in which the Council has a controlling or significant interest. In particular it will be responsible for approving and overseeing the Council's strategic objectives across the Nottingham City Council group of companies and to support the development of the Group in line with the Council's policies and ambitions. The Sub-Committee itself met for the first time on 21 January 2020 and will meet bi-monthly or at such other frequency as may be required. The next meeting is on 17 March 2020.

Capital and Capitalisation

2.26. In July 2018 KPMG reported to NCC that:

- “The Authority should develop and appropriately approve a capital investment strategy document as soon as possible, given the growth of its investment property portfolio and associated borrowing costs.” – This has been developed

and approved during 2018-19. The Council initially implemented a capital strategy which was approved February 2019, this strategy is annual reviewed and during 2019-20 it was reapproved alongside the Council's Taxation Strategy February 2020.

- "The Authority should:
 - o review its process for capturing and accounting for capital accruals, to ensure costs are capitalised in the correct period, notably in regards to internally delivered schemes; and
 - o review how it calculates its capitalised project management costs, notably the 8% add-on cost; and – review the basis of the "surplus recovery fee" capitalised cost for internally managed capital projects and why it is appropriate to capitalise this cost."

2.27 For 2018-19 a review of the mechanism for internal charging to the capital programme has been undertaken to ensure compliance with the CIPFA Code of Practice and has resulted in costs being reallocated to revenue and a resulting reduction in capital spend. A further review for continuing arrangements is in progress and is due to be reported shortly.

2.28 Following the 2018-19 review and resulting cost reallocation, a new CIPFA compliant process was implemented for all capital charges from April 2019. This new process has given rise to an increase in revenue costs, the resulting revenue pressure has been mitigated in the Council's MTFO. Transactions are periodically reviewed to ensure that the new process is being adhered to and once implemented Oracle Fusion has the controls in place to ensure costs which are charged to capital meet the CIPFA's capitalisation criteria.

Climate Change Emergency

2.29. The Council has declared a Climate Emergency at Full Council on the 13th January 2020 whilst also adopting the Carbon Neutral Charter (developed in conjunction with the Green Theme Partnership) and launching a consultation on our draft action plan for achieving carbon neutrality by 2028. Energy Services are leading on this work for the authority and it is planned to adopt a final version of the Carbon Neutral Action Plan at Full Council in May 2020.

Children In Care

2.30. We are continuing to work creatively to enable children and young people to remain with their family wherever this can be managed safely. In addition to the exiting mechanisms we have worked with colleagues to secure national funding to pilot a Multi-systemic Therapy team to specialise in working with children who are at risk of criminal exploitation. At the end of December 2019 there were 628 children in care, 32 of whom were unaccompanied asylum seeking young people and five were in secure placements. Nationally the DfE reported a 4% increase in the numbers of children in care in 2019.

2.31. There has been an ongoing focus on improving fostering recruitment in Nottingham. At the end of December 2019 there were 451 children in foster care. Of this number 255 (56%) were placed with Nottingham City Council foster carers. The number of children in internal foster placements was higher than those placed with independent fostering agencies throughout the whole of 2019

Workplace Parking Levy (WPL)

- 2.32. The overall NET/WPL financial model is regularly updated to reflect the actual WPL income received each financial year together with the latest projections of future income. It is proposed that the financial model be extended to 2037/38, four years after the end of the Concession Agreement, to include continued WPL income and re-profiling of the Prudential Borrowing repayments.

Information & Communications Technology Increase In Targeted Threats

- 2.33. The number of advanced cyber attacks continues to increase, however at a reduced rate to 12 months ago. We continue to be successful in preventing / detecting issues to date, but the elevated threat level continues.
- 2.34. The Council has adopted advanced threat protection to improve email security and Web Application Firewalls to improve protection for internally hosted services.
- 2.35. The IT Security team have undertaken and continue to undertake training and development activities to improve our capabilities to counter and manage any threats. Mandated IT Security Awareness Training is also promoted across the Council.

Security Accreditation and Best Practice

- 2.36. The Council has maintained its accreditation with Cyber Security Essentials Plus, HSCN and PSN. Many of these require external scrutiny and testing as a condition of accreditation and therefore provide a level of assurance.

Information Governance

- 2.37. The role and responsibilities of the Senior Information Risk Owner (SIRO) have been expanded to include; overall ownership of information risk management across the council, acting as champion for information compliance activities in order to mitigate against potential risks, and realising greater operational efficiencies and improved customer services.
- 2.38. The Information Compliance Board (ICB), chaired by the SIRO, meets on a quarterly basis to develop and provide governance and oversight of the Information Compliance Assurance Framework.
- 2.39. The Data Protection Officer advises on all data protection matters across the Council and reports directly to the Information Compliance Board.
- 2.40. The number of requests processed under Freedom of Information and Environmental Information Regulations continue to be dealt with above the statutory target of 90%.
- 2.41. Challenges associated with managing and processing personal information requests under the Data Protection Act (DPA) remain due to the volume and complexity and performance has dropped below statutory expectations. Steps have been taken to address this issue with a view to achieving the standard as soon as possible.
- 2.42. The Council is compliant with the Department of Communities and Local Government's Transparency Code 2015. We publish information in accordance with

the Code and recognise that maintaining and updating these data sets is an ongoing commitment. Work continues across the Council to ensure that departments are aware of their responsibilities and Data sets are up to date and made available for reuse via the Open Data Nottingham portal.

- 2.43. The new section 45 Freedom of Information Code of practice was published in July 2018. It includes further recommendations regarding the council's publication scheme. The council is in the process of collating the datasets recommended for publication, with an aim to publish them in 2020/2021.
- 2.44. In May 2018, the EU General Data Protection Regulation (GDPR) replaced the Data Protection Act 1998. On 1 February 2020 the UK GDPR comes into force. This imposes important requirements for the handling of personal data. Procedures are in place to deal with the provisions of the GDPR associated with transparency and individuals' rights. The UK GDPR places greater emphasis on the explicit design of organisational and technical measures to secure compliance with its principles (privacy by default and design). This will have significant associated budgetary, I.T., personnel, governance and communications implications.
- 2.45. The Information Compliance Team continue to work alongside Internal Audit and IT Services to action the recommendations made following the Internal Audits of the Information Compliance and Information Security services. An Information Compliance Assurance Framework is now in place to guide the work of the Information Compliance Team, an Information Compliance Risk Register has been approved by the ICB and feeds in to the Strategy and Resources Risk Register. The Register is updated and reported to the ICB on a quarterly basis.
- 2.46. An Information Compliance Assurance Report is reported to Audit Committee on an annual basis.

Robin Hood Energy

- 2.47. The Council wholly own this private limited company licensed to supply gas and electricity to domestic and non-domestic customers in England, Scotland and Wales. It is a not-for-profit company and began offering credit tariffs in May 2015 followed by prepayment tariffs and commercial tariffs. Governance arrangements are established including weekly management meetings and monthly Board meetings.
- 2.48. The Board comprises 5 Directors, of which all are councillors. The Company is part-way through a strategic review which will be concluded by end March 2020. Through this period, the City Council's scrutiny of the Company is robust and the relationship is managed through fortnightly Steering Group meetings with the Company's management, Executive Members and Senior Management.

Enviroenergy

- 2.49. The company continues to work with the shareholder to seek solutions to its long term investment requirements, recognising the complexity of interdependencies with the Council's requirements for waste disposal and continuing negotiations regarding expansion of Eastcroft Energy from Waste plant. It is a priority for the company and the shareholder to resolve this challenge as soon as possible to provide financial stability. This will enable the company to plan with certainty for the medium and longer

term, taking advantage of the significant development taking place within the city to expand its customer base.

- 2.50. Operational stability remains good and is continually improving, with successful external audits regarding EU ETS, CHPQA, ISO14001 completed, a new Environmental Permit issued and an internal audit follow up audit of Health and Safety providing significant assurance on Health and Safety controls and identifying an improving direction of travel with all previous recommendations delivered and no new recommendations.
- 2.51. For Enviroenergy, the focus remains on continual improvement regarding health and safety culture, asset management (both on the network and within the heat station), and modernisation of its customer billing function.

3 Process for the Production of the AGS 2019/20

- 3.1 It is intended that the production of the AGS 2019/20 will closely follow the process of previous years noted by this committee, and the timetable is given at **Appendix 1**. The process will be managed by the Corporate Governance Steering Group (CGSG) as endorsed by the Executive Board on 20 May 2008 and which consists of senior colleagues representing Council services. A set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant groups and significant partnerships
- 3.2 The assurance will come from a self-assessment based on customised questionnaires targeted at the appropriate assurance givers, together with other information provided in support of the AGS. The questionnaires will be based on the Council's Code of Corporate Governance and will be based on the relevant best practice developed produced by CIPFA/SOLACE.
- 3.3 Completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and external assurance providers, Council, Board and committee minutes, and the annual review of governance arrangements in significant partnerships.
- 3.4 The final AGS will be an account of the Council's governance arrangements in a format addressing the principle embodied in the Local Code of Corporate Governance. It will reflect the failings identified and note actions put in place to address them. This will be discussed by members of the CGSG and will be presented to the Audit Committee for approval, and the document when approved will be published with the City Council's Statement of Accounts.

4 Background

- 4.1. The Council's governance arrangements aim to ensure that objectives and responsibilities are set out and met in a timely, open, inclusive, and honest manner. The governance framework comprises the systems, processes, cultures and values by which it is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.

- 4.2. The publication of an AGS is required by the Accounts & Audit Regulations 2015. The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare a statement in accordance with proper practices. The 2007 CIPFA/SOLACE (updated 2016 - effective for 2017/18 statement) publication "Delivering Good Governance in Local Government Framework" provided the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting of 20 May 2008.
- 4.3. In 2016 CIPFA/SOLACE produced an updated guidance note covering the delivery of good governance in local government and how an authority's arrangements can be reflected in the AGS. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS
- 4.4. Included in this Committee's terms of reference is the core function that it should be "satisfied that the Authority's assurance statements, including the AGS, properly reflect the risk environment and any actions required to improve it."
- 4.5. In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken in time to deliver it alongside the Council's Statement of Accounts. The timetable (Appendix 1) will be used to monitor the progress of the AGS.
- 4.6. The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2018/19 on 29th July 2019. It was signed by the Leader of the Council and Chief Executive and was published alongside the Statement of Accounts.
- 4.7. The AGS reflects the governance framework operating within the Council and its significant partnerships. The issues identified and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.
- 4.8. Part of the 2018/19 AGS reported on significant control issues affecting the Council and the action plans put in place to address them. In ascertaining the significance of the control issues, CIPFA defines a series of factors to be considered, as follows:
 - The issue has seriously prejudiced or prevented achievement of a principal objective
 - The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
 - The issue has led to a material impact on the accounts.
 - The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
 - The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
 - The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
 - The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
 - The 2018/19 AGS also reported on issues of note which do not merit categorising as significant but require attention and monitoring to maintain and improve the system of internal control. As with significant issues these may have been brought forward from previous statements if the issues have not been finally resolved.

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

None

6 Published documents referred to in compiling this report

- 6.1 Accounts & Audit Regulations 2015
CIPFA/SOLACE - Delivering Good Governance in Local Government Framework,
2016
- 6.2 Executive Board 20 May 2008 - Local Code of Corporate Governance
Nottingham City Council - Statement of Accounts 2018/19
Annual Governance Statement 2018/19
NAO – Local Authority Governance (15th January 2019)