

## Draft Annual Governance Statement 2022-23

### 1. Executive Summary

- 1.1. The Annual Governance Statement (AGS) is a review of the effectiveness of the system of internal control. This follows best practice described in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice: Delivering Good Governance in Local Government (2016), and related CIPFA briefings.
- 1.2. Nottingham City Council is required by Regulation 3 of the Accounts and Audit Regulations 2015 to have a sound system of internal control
  - facilitating effective exercise of its functions and achievement of its aims and objectives;
  - ensuring financial and operational management of the authority is effective; and
  - including effective arrangements for the management of risk.
- 1.3. An AGS is required as part of the annual Statement of Accounts by Regulations 6(1)(a) and (b) of the Accounts and Audit Regulations 2015.
- 1.4. The review reflects formal reporting to Council, Executive, and other constituted committees, and enquiries made of officers with relevant knowledge, experience and expertise. The review was undertaken in consultation with the Council's Head of Paid Service, Monitoring Officer, Chief Finance Officer and Corporate Directors.
- 1.5. This draft AGS is being presented as part of the draft 2022-23 Statement of Accounts and is required to include significant events or developments during 2022-23 and up to the date the Statement of Accounts is signed. The AGS will be finalised after Nottingham City Council's (NCC's) external auditor has given his opinion on the 2022-23 Statement of Accounts.

#### **NCC Improvement Plan (Together for Nottingham)**

- 1.6. The [Together for Nottingham \(TFN\) Plan](#) combined the actions required as a result of Max Caller's [Non-Statutory Review](#) of NCC and the External Auditor's [Public Interest Report](#) (both issued in 2020-21). The TFN Plan was split into workstreams, with each workstream forming a significant issue reported in the 2022-23 AGS. It was updated in October 2022 to incorporate further reviews, updates to milestones and further actions and the Plan together with the statutory instructions (see below) have shape the Council's improvement work.
- 1.7. During 2022-23 NCC worked through the actions set out in the TFN Plan including continuing to respond to the challenging financial environment that all local authorities find themselves in.
- 1.8. An updated [Constitution](#) setting out the Council's rules for how it works was a key deliverable of TFN and was implemented from 1<sup>st</sup> October 2021. An update to the officer delegated decision making limit was made following review in November 2022.
- 1.9. A new Council Plan was adopted in 2021 and superseded by the [Strategic Council Plan](#) adopted in March 2023, and a [Commercial Strategy](#) was approved

by the Executive in November 2022. The Strategic Council Plan was [refreshed](#) in March 2024.

- 1.10. Decisions have been taken and either have been implemented or are being implemented in respect of the future of several of the Council's companies. As part of this the Council transferred the core operations of two of its third-party companies, Nottingham City Homes and Nottingham Revenues & Benefits, back in-house on 1 April 2023.
- 1.11. In line with the four-year electoral cycle there was an election of a new council in May 2023. The outcome of the election was Labour (51 seats), Nottingham Independents (3 seats) and Independent (1 seat). In May 2024 a new leader and deputy leader were elected by the Council.

### **NCC Improvement Plan (2024)**

- 1.12. A [new Improvement Plan](#), which reflects the criteria Commissioners expect as they exit their role at NCC, was approved by the Council on 5<sup>th</sup> August 2024. In section 4 of this document, the programme is described in more detail with linkages to remaining significant issues.

### **Statutory Directions and Intervention**

- 1.13. NCC has been supported in its improvement journey by the Improvement and Assurance Board (IAB), set up by NCC at the direction of the Secretary of State in January 2021, chaired by Sir Tony Redmond and made up of independent experts. Following the Improvement and Assurance Board's (IAB) reports to the Secretary of State in April 2022, he issued directions in September 2022. These moved the Board from a non-statutory advisory role to a [statutory intervention](#) so that they were empowered to direct rather than guide the Council's improvement activities.
- 1.14. In February 2023 the IAB issued 39 [instructions](#) to the Council along with deadlines for their achievement. These Instructions, alongside the delivery of the wider actions in the Together for Nottingham Plan shaped the Council's improvement work over the course of 2023/24. An additional 2 instructions specifically concerning maximising savings in setting of the 2024/25 budget were issued at the end of January 2024.
- 1.15. The Council responded to the IAB on its delivery against each Instruction as the deadlines became due, IAB meetings were held throughout each year and individual contacts between IAB members and the Council took place. These interactions and response against the Instructions informed quarterly reports that the IAB provide to DLUHC on the Council's progress.
- 1.16. The IAB's 3rd report on the statutory intervention presented a mixed picture. Whilst there were improvements in several areas, there were also notable shortcomings. The report raised concerns about financial resilience and sustainability, highlighting persistent weaknesses in finance, transformation, and the organisation's culture, particularly in governance and workforce matters.
- 1.17. After consultation in late 2023 and early 2024 the government decided to appoint three Commissioners, including a Lead Commissioner, a Commissioner for finance and a Commissioner for transformation.

## **Commissioners**

- 1.18. On the 22<sup>nd</sup> February 2024 the Secretary of State implemented an intervention package replacing the Improvement and Assurance Board with commissioners led by Tony McArdle with new directions allowing the commissioners to exercise a broad range of functions associated with governance, improvement and strategy.
- 1.19. The intervention comes with a set of Directions, including the requirement to produce an Improvement Plan to the satisfaction of Commissioners. The Council has been working closely and cooperatively with Commissioners, including in the production of a new improvement plan.
- 1.20. This [new Improvement Plan](#) was approved by the Council on 5<sup>th</sup> August 2024, and implementation has started.

### **Section 114 (2) Notice (Dec 2021)**

- 1.21. The S151 Officer identified a significant issue as part of work to gain financial management assurances. On 15<sup>th</sup> December 2021 he issued a [S114 notice](#) to all councillors identifying unlawful transactions which had breached the statutory HRA ring-fence. Councillors agreed actions to address the issue at a meeting in January 2022 and further work was commissioned to address remaining issues. This further work was reported in April 2022 extending the financial impact and scope of concern. As a result the Council [decided to insource its housing management function](#), and this was achieved in April 2023. In September 2022 the Secretary of State directed NCC to incorporate the recommendations reported in April into the Together For Nottingham (TFN) plan (completed in October 2022) and allocate resources accordingly.
- 1.22. As part of the actions, the authority applied for and was granted the Item 9 Credit (Nottingham City Council) Direction 2022 which applies in relation to the financial year beginning on 1 April 2022. This allows the Council to carry to the HRA from its General Fund £27.703m as the repayment of sums debited from the HRA to meet ineligible costs in its General Fund during the period 1 April 2014 to 31 March 2021. Further work undertaken by the authority has identified additional amounts for which an application is yet to be made to Government.

### **Section 114 (3) Notice (Nov 2023)**

- 1.23. The S151 Officer, on 29<sup>th</sup> November 2023, issued a [report under Section 114\(3\)](#) of the Local Government Finance Act 1988 because, in his professional opinion, the council was not able to deliver a balanced budget for 2023/24, although this is a legal requirement. In reaching this opinion he considered not only the immediate circumstances faced in the current year, but also the 4-year MTFP (specifically the significant budget gap for 2024/25) and the overall adequacy of reserves.
- 1.24. The S151 Officer, being conscious of the limited financial control environment, instigated significant controls during 2023 through the Finance Improvement Plan to improve clarity and transparency. These support his professional assessment of the Council's financial position. A Financial Intervention Strategy, involving a range of spend control measures, was implemented following forecast overspend. Despite the considerable efforts of the Council since July to manage its position, the operating environment and wider economic context

continue to be volatile with small changes in demand disproportionately materialising in large financial pressures. As a result, the funding gap forecast included a multi-million in-year overspend.

### **Exceptional Financial Support Request**

1.25. A request for Exceptional Financial Support for the financial year 2023/24 and 2024/25, was made to the Government Department for Levelling Up Housing and Communities and approved. This allowed the Council to set a balanced budget for 2024/25 on 4<sup>th</sup> March 2025. In practical terms this sought permission to 'capitalise' revenue expenditure so that it is treated as capital expenditure and can be met from the council's capital resources. The final amount and confirmation that the Council can capitalise is subject to a number of conditions and assurance.

### **External Audit**

1.26. In February 2022 the Council's external auditors [Grant Thornton provided an update](#) in respect of their financial statements audit stating 3 significant weaknesses in respect of 2019/20 and 2020/21 financial statements:

- financial sustainability,
- company governance and
- delays to annual accounts production and finalisation

1.27. The first 2 of these issues are covered within TFN. The 3<sup>rd</sup> points to resourcing of accounts preparation and strengthening of valuation records.

1.28. In February 2023 [Grant Thornton updated its concerns about arrangements to secure best value](#) by adding 5 new areas considered to be significant weaknesses:

- failure to secure significant improvements in Children's Services,
- significant movements between budget and final outturn in 2021-22
- unlawful transfer from Housing Revenue Account to the General Fund
- lack of management capacity due to recruitment and retention issues
- failure to demonstrate best value through procurement

1.29. These are reflected in the significant issues identified for AGS purposes and the TFN plan, all are considered for AGS purposes to reflect issues present in 2020/21 or to be developments related to these issues.

1.30. Grant Thornton issued a statutory recommendation on 9<sup>th</sup> February 2024, using the external auditor's powers under section 24 schedule 7 of the Local Audit and Accountability Act 2014, that further savings proposals are developed. The Council has accepted the recommendation.

1.31. As a result of the CIPFA and Penn reports the external auditor determined that a high audit risk of management override existed, which necessitated further assurance from the Section 151 Officer in respect of a number of key financial processes. Ernst & Young (EY) were procured to carry out a review, and a preliminary report identified gaps compared to best practice in some areas. A further concluding report on the Establishing Grip phase of EY work is yet to be reported.

1.32. The Together for Nottingham Plan addressed the significant issues identified in previous Annual Governance Statements and set out a structure, priorities,

accountabilities and milestones for improvement incorporating and developing the recommendations made in the Public Interest and Non-Statutory Review reports. The Audit Committee has received updates on progress of the themes of the Together for Nottingham Plan and the IAB instructions during the year.

1.33. [Grant Thornton's Annual Report on Nottingham City Council for the 3 years 2020/21, 2021/22 and 2022/23](#) was issued in March 2024. It sets out Grant Thornton's judgment of significant weakness in each of these years for

- financial sustainability and financial governance,
- governance, and
- improving economy, efficiency and effectiveness

1.34. The report highlighted that whilst some improvements have been made, for all 11 previously highlighted key recommendations further work was required. The 3 areas above are factors within these key recommendations covering

- Financial sustainability including savings schemes, business case development, and budget management and forecasting
- Medium Term Financial Plan
- Recruitment and retention (including pay policy and interim / permanent mix)
- Budget approach and finance skillbase
- Company arrangements
- Companies' strategic purpose, financial needs and risk
- Statutory accounts preparation
- Prioritisation of external audit query resolution
- HRA ringfence and housing subsidiary companies
- Children's services
- Procurement and contract management

1.35. A further key recommendation was made to engage fully and at pace with the improvement and intervention plans developed by Commissioners.

1.36. The report concludes that significant work is still needed and concerns remain in respect of

- financial sustainability
- workforce strategic management
- the effectiveness of internal control.

1.37. A key weakness continuing over the last 2 years has been the level of vacancy and interim resource in the Finance structure.

### **Key Personnel**

1.38. The Statutory Officers are

Melbourne Barrett - Chief Executive (statutory Head of Paid Services)

From 5 August 2024 Sajeeda Rose took over as Chief Executive

Clive Heaphy - Interim Corporate Director of Finance and Resources (Section 151 Officer).

From 3 January 2023 Ross Brown took over as Corporate Director of Finance and Resources (Section 151 Officer).

Malcolm Townroe - Director of Legal and Governance (Monitoring Officer).

From May 2024 Beth Brown took over as Director of Legal and Governance (Monitoring Officer).

1.39. Corporate Directors are

|   |   |
|---|---|
| People until June 2024                        | Catherine Underwood   |
| Children and Education from June 2024         | Ailsa Barr was the Interim Corporate Director from June 2024<br>Jill Colbert became Corporate Director from the end of September 2024 |
| Adults Social Services from June 2024         | Roz Howie was the Interim Corporate Director from June 2024<br>Vicky Murphy starts as Corporate Director from November 2024           |
| Growth & City Development                     | Sajeeda Rose from September 2021<br>Nicki Jenkins took over as Interim Corporate Director from August 2024                            |
| Communities, Environment & Residents Services | Frank Jordan from September 2021<br>Colin Parr took over from 2023  |

1.40. Another key role is

|                           |                            |
|---------------------------|----------------------------|
| Director of Public Health | Lucy Hubber from June 2021 |
|---------------------------|----------------------------|

## 2. Significant Issues Summary

2.1. The following issues have been identified as significant for 2022-23 based on the CIPFA guidance and these are reported in section 4 of this report.

1. Medium Term Financial Strategy (MTFS)
2. Asset Management
3. Companies & Debt Management
4. Capital Programme
5. Governance and Decision Making, including Constitution
6. Organisation & Culture
7. Delivery Options
8. Policy Framework
10. Ofsted Focussed Visit & Improvement Programme
11. Protecting people from Covid-19\*
12. Energy & Waste Infrastructure
13. Housing management & HRA ring-fence
14. Delays to annual accounts production and finalisation
15. Oracle Fusion payroll implementation

2.2. Numbering is retained from 2020-21 AGS for consistency. Actions in respect of Issue 9 from 2020-21's AGS were completed in 2021-22 in respect of renewing the Council Plan, whilst updating the policy framework and operating model are incorporated in Issues 7 & 8.

2.3. Additional significant issues were identified for 2022-23.

- 16. Management override of controls & Finance Improvement Plan
- 17. Management capacity / recruitment and retention issues
- 18. Nottingham Castle Trust\*

\* These issues have been resolved in 2022-23.

2.4. Significant issues have previously been covered in the Together For Nottingham plan and the IAB's 39 statutory instructions. The 2 further instructions clarified expectations in respect of the budget instruction for 2024/25. Delivery of the plan and instructions was monitored by Corporate Leadership Team and the IAB. The new Improvement Plan covers much of the same ground and incorporates new areas and priorities as a result of the statutory intervention and attempts to align strategies, plans and activity to resources.

|                            | CIPFA Guidance   |  |  |   |  |  |  |   |
|----------------------------|--|--|--|---|--|--|--|---|
|                            | Issues   | 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 Audit and Risk 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. |
| Financial Resilience       | 1.MTFS   | ✓  | ✓  | ✓   | ✓  | ✓  | ✓  | ✓   |
|                            | 2 Asset Management   | ✓  | ✓  | ✓   |  | ✓  | ✓  | ✓   |
|                            | 3 Companies  |  | ✓  | ✓   | ✓  | ✓  | ✓  | ✓   |
|                            | 4 Capital Programme & Debt Management                                    | ✓  | ✓  | ✓   | ✓  | ✓  | ✓  | ✓   |
| Delivery Enablers          | 5 Governance and Decision Making , including Constitution                | ✓  |  |   |  | ✓  | ✓  | ✓   |
|                            | 6 Organisation & Culture   | ✓  | ✓  | ✓   | ✓  | ✓  | ✓  | ✓   |
|                            | 16 Management override of controls & Finance Improvement Plan            | ✓  |  | ✓   | ✓  |  | ✓  |   |
|                            | 17 Management capacity / recruitment and retention issues (from 2022/23) | ✓  |  |   |  |  | ✓  |   |
| Transformation of Delivery | 7 Delivery Options   |  | ✓  | ✓   |  | ✓  | ✓  |   |
|                            | 8 Policy Framework   | ✓  |  |   | ✓  | ✓  | ✓  |   |
| Co                         | 9 A new Council Plan   | Completed in 2021-22   |  |   |  |  |  |   |

|  | CIPFA Guidance   |  |  |   |  |  |  |   |
|--|--|--|--|---|--|--|--|---|
|  | Issues   | 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 Audit and Risk 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. |
|  | 10 Ofsted Focused Visit & Improvement Programme          | ✓  | ✓  |   | ✓  | ✓  | ✓  |   |
|  | 11 Protecting People from Covid-19                       | ✓  | ✓  |   |  | ✓  | ✓  |   |
|  | 12 Energy & Waste Infrastructure                         |  | ✓  |   |  | ✓  |  |   |
|  | 13 Housing Management & HRA ring-fence                   | ✓  | ✓  | ✓   | ✓  | ✓  | ✓  | ✓   |
|  | 14 Delays to annual accounts production and finalisation | ✓  | ✓  | ✓   | ✓  | ✓  | ✓  |   |
|  | 15 Oracle Fusion payroll implementation                  |  | ✓  |   |  | ✓  |  |   |
|  | 18 Nottingham Castle Trust (from 2022/23)                | ✓  | ✓  | ✓   |  |  | ✓  |   |

### 3. Action Plan: Governance Challenges for Future Years

The review of governance arrangements has identified the main areas where the Council will need to focus its efforts during future years, to address changing circumstances and the challenges identified. Areas 1-8,10 and 13-14 are set out in the Council's [Together for Nottingham \(TFN\) Plan](#) and for the Council Plan Delivery Issues the action plan below. Completion or substantial progress against these objectives is due by the dates shown against each action.

| Ref | Action   | Responsibility |                               | Proposed timeline |
|-----|--|----------------|-------------------------------|-------------------|
|     |  | CLT            | Directors or Heads of Service |                   |
| 1-8 | As set out in the <a href="#">Together for Nottingham (TFN) Plan</a> |                |                               |                   |



| Ref | Action  | Responsibility                |  | Proposed timeline   |
|-----|---|-------------------------------|--|---|
|     |   | CLT                           | Directors or Heads of Service  |   |
| 9   | Executive to renew the Council Plan and submit to Council for approval  | Executive & CLT               |  | Sep 2021<br>Complete with further renewals                                      |
| 10  | Completion of Ofsted Action Plan and delivery of sustainable social work resource levels that deliver on the Council's statutory obligations in respect of children and families<br><br>Continue to provide assurances to Children's Improvement Board and to CLT, Leadership Group, Executive Panel, Executive Board, and the Children's and Young People Scrutiny Committee | Corporate Director for People | Director of Children's Integrated Services   | Ongoing – majority of actions to Apr 2023 with some actions ongoing to Jan 2026 |
| 11  | Continued monitoring of government guidance, assess impact on citizens and employees and complete detailed risk assessments for any reinstatement of services with particular regard for BAME staff and citizens. Implementation of Local Outbreak Control Plan if appropriate  | Chief Executive & Leader      | All Directors & Heads of Service   | Complete<br>Continue to monitor health inequality                               |
| 12  | Review and develop future strategy including funding model for energy & waste infrastructure and long term district heating strategy for the city   | Chief Executive               | Corporate Director of City Development & Growth<br><br>Corporate Director of Finance and Resources | Ongoing   |
| 13  | HRA Action Plan incorporated into the TFN Plan  | Chief Executive & Leader      | Corporate Director of City Development & Growth<br><br>Corporate Director of Finance and Resources |   |
| 14  | Action to agree plan to complete statutory audits with external auditor included in TFN plan  | Chief Executive               | Corporate Director of Finance and Resources  | Ongoing   |

| Ref | Action  | Responsibility   |                                      | Proposed timeline |
|-----|---|--|--------------------------------------|-------------------|
|     |   | CLT  | Directors or Heads of Service        |                   |
| 15  | Payroll / HR stabilisation project  | Corporate Director of Finance and Resources                        | Director of HR & EDI                 | Ongoing           |
| 18  | Review financial processes and deliver a financial improvement plan   | Corporate Director of Finance and Resources                        | Director of Finance                  | Ongoing           |
| 17  | Temporary resource, improve establishment control, create Talent Acquisition & Resourcing team in HR, recruitment/talent pipeline, coordinated promotion of employment package, pay policy revision | Corporate Director of Finance and Resources                        | Director of HR & EDI                 |                   |
| 18  | Managed response to closure of Nottingham Castle Trust  | Corporate Director of Communities, Environment & Resident Services | Director of Sport, Culture & Tourism | Complete          |

#### 4. Significant Issues position

This sets out how the significant issues link to the [new Improvement Plan](#). All significant issues are encompassed by this new plan.

##### Improvement Plan:

##### Programme 1. Future Council: Vision, purpose and approach

- 4.1. Programme 1 leads to refreshing the Strategic Council Plan which covers significant issue 9.

##### Programme 2. Review and develop the Transformation Plan

- 4.2. Programme 2 includes the Children's Integrated Service development and transformation activities that support significant issue 9, and sets out the approach to assessing and transforming delivery options supporting (significant issue 7).

##### Programme 3. Manage and monitor delivery

- 4.3. Programme 3 will also support the implementation and embedding of chosen delivery options (significant issue 7) along with the continued oversight of all transformation and improvement (linking to all significant issues).

#### **Programme 4: Continuous financial sustainability**

- 4.4. Programme 4 covers significant issues 1, 4, 12, and 13, all of which involve financial sustainability considerations, in addition to managing any timing differences arising from the approach to significant issue 2.

#### **Programme 5: Strengthen financial management**

- 4.5. Programme 5 underpins activities to resolve significant issues 14, 15 and 16 in addition to supporting the delivery of programmes 3 and 4.
- 4.6. A timetable for resolving significant issue 14 is being followed and is monitored by Audit Committee, following parliament's enactment of supporting legislation.

#### **Programme 6: Corporate landlord and asset sales**

- 4.7. Programme 6 supports significant issue 2. The previous programme of asset rationalisation was formally closed, but a new programme of disposals using the existing processes and pipeline is required in order to fund the Exceptional Financial Support approved by the government to enable the Council to balance its budget for 2024/25.

#### **Programme 7: Council companies and traded services**

- 4.8. Programme 7 builds on and improves activity to support significant issue 3 and extends it to cover all commercial activity and procurement strategy.

#### **Programme 8: Improve governance**

- 4.9. Programme 8 sets out further actions to resolve significant issue 5.

#### **Programme 9: Engaged, effective and empowered workforce**

- 4.10. Programme 9 supports resolution of significant issues 6, 8 and 17, but this review indicates that it will also need to include assurance and support capacity to determine and fill established roles with permanent staff.

#### **Programme 10: Strengthen internal controls and assurance**

- 4.11. Programme 10 seeks to support management of risk across the authority, which will support all programmes through identification of better controls. It also seeks to rectify deterioration in Internal Audit capacity (see section 8.2 of this report) arising from significant issues 17, 1 and 6 – this will in turn be supported by programmes 5,9 and 11.

#### **Programme 11: Improving enabling and support systems and processes**

- 4.12. Programme 11 will particularly support programmes 2, 3 and 5 and the related significant issues , but has potential to support all programmes and significant issues.

### **5. Post balance sheet events and developments**

- 5.1. These events have had a significant impact on the Council and or its governance system including understanding of activities in 2022-23 and subsequently. The reasons for this are detailed in the narrative to the financial statements as part of the Statement of Accounts.

- The Council transferred the core operations of two of its third-party companies, Nottingham City Homes and Nottingham Revenues & Benefits, back in-house on 1 April 2023.
- In line with the four-year electoral cycle there was an election of a new council in May 2023.
- In November 2023 a Section 114 (part 3) report was issued due to the financial sustainability of the Council.
- Commissioners were appointed by the Secretary of State in February 2024
- A Statutory Recommendation was issued by Grant Thornton and considered by Council in March 2024 in relation to the Council's financial sustainability.
- The Strategic Council Plan 2024-2027 refresh updated the plan within the financial constraints.
- Exceptional Financial Support was approved by the government which will be funded from the Council's asset disposals.

## **6. Responsibility of NCC and Purpose of the Governance Framework** NCC Responsibility for Implementing Good Governance

- 6.1. Nottingham City Council (NCC, the Council) is responsible for ensuring that its business is conducted in accordance with the law and standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a best value duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 6.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, and effective delivery of its powers and duties, this includes arrangements for the management of risk, and a sound system of internal control.
- 6.3. The Council approved and adopted a code of corporate governance consistent with the principles of the 2016 CIPFA/SOLACE Framework Delivering Good Governance in Local Government publication.
- 6.4. This statement explains how the Council has complied with the code in 2020/21 and also meets the requirements of the Accounts and Audit (England) Regulations 2015, which require all relevant bodies to review their system of internal control and prepare an Annual Governance Statement. It reports on
  - The governance system as it applied during the financial year 2020/21 including group activities.
  - Significant events or developments relating to the governance system that have occurred between the year-end and the date on which the Statement of Accounts is signed by the responsible financial officer.
- 6.5. In addition, the CIPFA Code of Practice on Local Authority Accounting requires reference to and assessment of the effectiveness of key elements of the governance framework, including:

- group activities where the activities are significant,
- the role of those responsible for the development and maintenance of the governance environment such as
  - the authority,
  - the executive,
  - the audit committee
  - others as appropriate including shareholder representatives.

6.6. Good governance helps the Council to set its objectives and achieve them efficiently and deliver value for money for the tax payer.

6.7. The guidance for implementing good governance was updated in 2016 by CIPFA / SOLACE to reflect a revision to the International Framework in 2014.

## 7. The Governance Framework

Governance principles & how NCC aims to meet them

7.1. The diagram below, taken from the International Framework, illustrates the various principles of good governance in the public sector and how they relate to each other.

**Achieving the intended outcomes while acting in the Public Interest at all times**



7.2. Various arrangements are in place to ensure that the Council complies with the local code of corporate governance. Some of these are listed in the table below.

|   |  |
|---|--|
| <u>A. Behaving with Integrity</u>                           |  |
| Councillor / Co-opted Member Code of Conduct                | Employees' Code of Conduct   |
|   | Scheme of Delegation   |
| Councillor / Officer Protocol                               | Performance Appraisal Process  |
| Counter Fraud Strategy                                      | Declaration of Related Party Transactions  |
| Registers of Interests, Gifts & Hospitality                 | Confidential Reporting Code<br>(Whistleblowers' Code)  |
| Data Protection Protocols                                   |  |
| <u>B. Openness and Engagement</u>                           |  |
| Customer Charter  | Consultations  |
| Comments, Compliments and Complaints Policy (Have Your Say) | <a href="#">Open Data Nottingham</a>   |
|   | Citizens' Panel  |
| Freedom of Information arrangements                         |  |
| <u>C. Defining Outcomes (decision making)</u>               |  |
| 2050 Vision   | Constitution including <ul style="list-style-type: none"> <li>• Decision Making (Art. 7)</li> <li>• Executive Arrangements (Art.10)</li> <li>• Standing Orders (Art. 12)</li> <li>• Financial Regulations (Art. 17)</li> <li>• Contract Procedure Rules (Art. 18)</li> </ul> |
| Strategic Council Plan                                      |  |
| Budget and Policy Framework                                 |  |
| Business plans / Service plans                              |  |
| Decision-making records                                     |  |
| Commercial Principles for Strategic Decisions               |  |
| <u>D. Interventions</u>                                     |  |
| Budget Monitoring   | Finance Improvement Plan   |
| Performance Management Framework                            | Responding to the Non-Statutory Review, the Report in the Public Interest, and S114 Report and implementing the Council's Action Plan (TFN Plan)   |
| Early Interventions   |  |
| Council Plan Covid Supplement                               |  |
| Transformation Benefits Management Framework                |  |
| <u>E. Capacity and Capability</u>                           |  |
| Member Induction & Training                                 | Officer Induction  |
| Board Training  | Data Academy   |
| Performance Appraisal                                       | Change Academy   |
| Peer Review   | Learning Zone  |
| <u>F. Risks and Performance</u>                             |  |
| Financial Regulations                                       | Risk Management Framework  |
| Medium Term Financial Plan                                  | Counter Fraud Team   |
| <u>G. Effective Accountability</u>                          |  |
| Annual Financial Statements                                 | Improvement and Assurance Board  |
| Nottingham Plan Annual Report                               | External Audit and Inspection  |

## 8. Review of Effectiveness

### Review Process

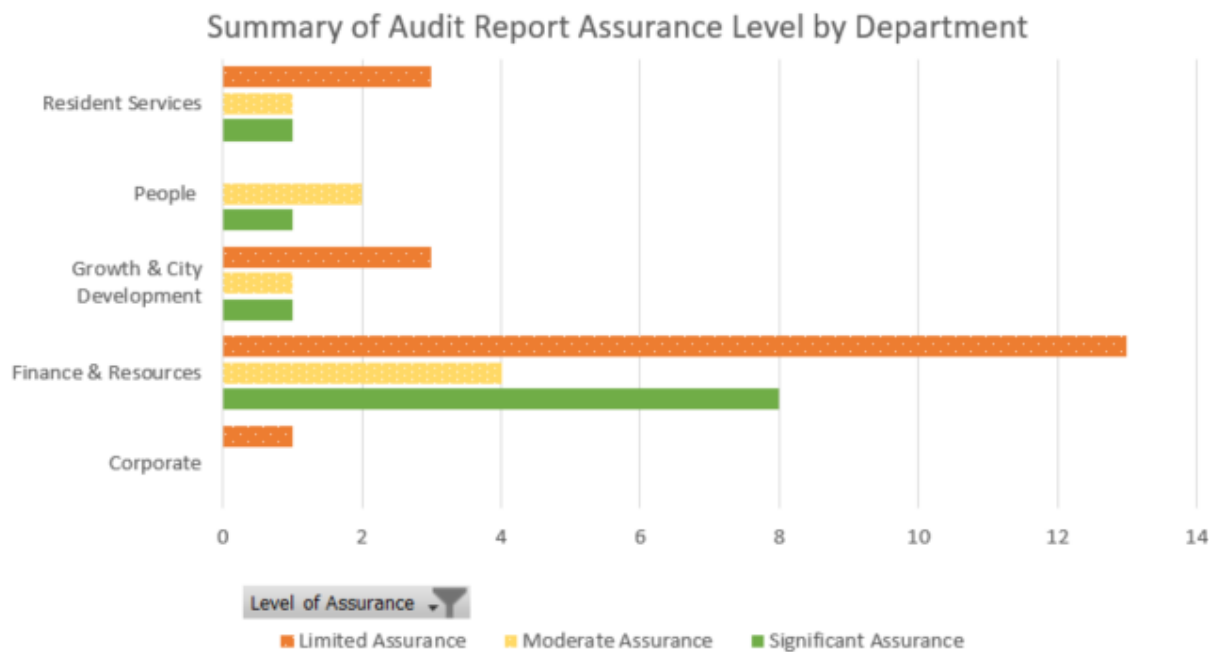
- 8.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Corporate Directors within the Council who have responsibility for the development and maintenance of the governance environment, Statutory Officers, key colleagues, the Head of Internal Audit's annual report, and by comments made by the external auditors and other review agencies and inspectorates. The review also looks at governance arrangements undertaken within its group members and significant partnerships.

### Internal Audit & Head of Audit & Risk (HoIA) Opinion

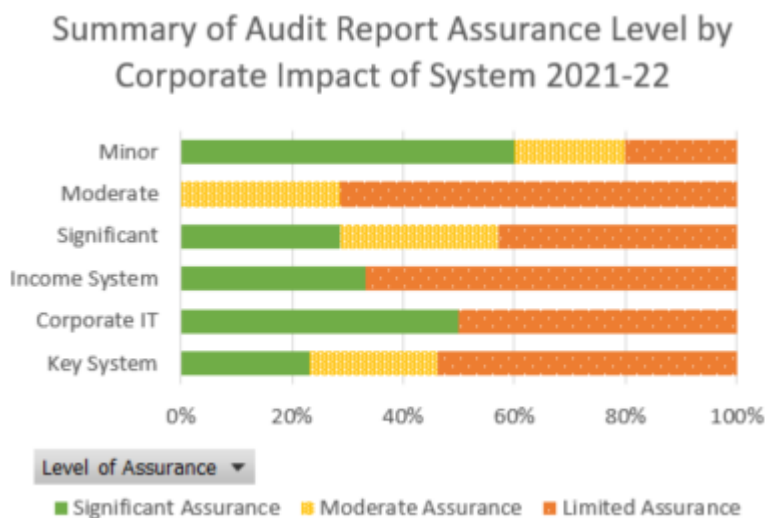
- 8.2. The Accounts & Audit Regulations 2015 and mandatory Public Sector Internal Audit Standards require the HoIA to give an opinion and report to support the City Council's Annual Governance Statement, however this has not been possible during 2022-23 due to HIA not in post. Corporate Directors are responsible for ensuring that proper standards of internal control operate within their directorates.
- 8.3. The Internal Audit service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Audit Committee. Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Report summaries have been provided to Audit Committee and implementation of actions is tracked.
- 8.4. During 2022/23 Internal Audit issued key systems audit reports with the following levels of assurance and direction of travel

| System                     | Level of Assurance | DoT |
|----------------------------|--------------------|-----|
| Main Accounting            | Moderate           | ↓   |
| Payroll / HR (EMSS)        | Limited            | ↔   |
| Payroll (NCC)              | No                 | ↓   |
| Accounts Payable (EMSS)    | Significant        | ↑   |
| Accounts Payable (NCC)     | Limited            | ↓   |
| Accounts Receivable (EMSS) | Moderate           | ↓   |
| Accounts Receivable (NCC)  | Limited            | ↓   |
| Bank Reconciliation        | Moderate           | ↓   |
| Council Tax                | Moderate           | ↔   |
| Business Rates             | Limited            | ↔   |
| Housing Benefits           | Moderate           | ↑   |
| Treasury Management        | Moderate           | ↓   |

8.5. Across departments audits provided the following assurance levels



8.6. Corporate impact of systems were analysed by assurance level as follows



8.7. Internal Audit also carried out a review of external sources of assurance which was published with its progress report in September 2023.

### External Audit

#### External Audit of 2019/20 Statement of Accounts

8.8. The external auditor has provided an [Audit Findings Report for his 2019/20 audit](#), however this also indicates that the audit is likely to be affected by the government's plan to set a backstop date for English local authority audits. At the time of writing this report a management response is yet to be determined due to the report only recently being received.

8.9. The issues identified by the external auditor are consistent with the significant issues identified in this report.



8.10. Grant Thornton has regularly reported on progress and made interim conclusions to the Audit Committee earlier in 2022. Links to their report in February 2022 and their Interim Value for Money report in February 2023 setting out their concerns are included below.

[Interim Auditor's Annual Report March 2024 for the 3 years 2020/21, 2021/22 and 2022/23](#)

[Interim Value For Money report November 2022](#)

[Independent Auditor's Report February 2021](#)

8.11. The external audit of the 2020/21 Statement of Accounts will take place once the 2019/20 audit is complete.

8.12. The external auditor continues to provide regular reports to Audit Committee.

## 9. Conclusion

- 9.1. The Council has reviewed the effectiveness of its governance framework including the system of internal control as outlined above and considers it needs improvement, particularly in respect of the significant issues set out in section 2 above.
- 9.2. The Council has taken steps to address the above matters as indicated in the Action Plan presented in section 3 of this statement, through its engagement with Commissioners and its improvement and transformation plans. These aim to make governance arrangements robust and effective. We continue to annually review governance and seek improvements where required.

Signed: .....

Chief Executive

Signed: .....

Leader of the Council