

AUDIT COMMITTEE - 28 February 2014

Title of paper:	ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2012/13 AND PROCESS FOR PRODUCING 2013/14 STATEMENT	
Director(s)/ Corporate Director(s):	DIRECTOR OF STRATEGIC FINANCE	Wards affected: All
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Other colleagues who have provided input:		
Recommendation(s):		
1	Note the progress made to date in addressing the issues reported in the 2012/13 AGS, as detailed in Appendix 1	
2	Note the process and timetable for compiling and completing the 2013/14 AGS, as detailed in Appendix 2	

1. REASONS FOR RECOMMENDATIONS

This report sets out the current position in respect of those issues reported in the 2012/13 Annual Governance Statement (AGS), and the process for compiling the 2013/14 AGS.

1.1 Update of Issues Reported

Issues identified in the AGS have been revisited and an update of the latest position established. Issues not resolved are shown at **Appendix 1**.

1.1.1 Single Status

Single Status has now been implemented for all Nottingham City Council schools based staff, including casual workers in schools. Work continues to look at the pay and terms and conditions of a small group of employees.

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

The Medium Term Financial Plan has been reviewed to reassess pressures in future years as part of this process and reflects the culmination of the extensive work of councillors, colleagues and other stakeholders to fulfil a legal obligation to enable the setting of a balanced budget. Resources have been redirected by Identifying cost reductions arising from both efficiencies and policy issues.

1.1.3 Children in Care

There is a renewed focus which is the subject of a Big Ticket Project regarding reducing the numbers of children in care and speeding up the adoption process by tackling delay. Work in 2012 was undertaken to realign the children in care placements budget and to ensure that the use of a regional framework for all care registered and 16 plus accommodation was robust. There is strong collaboration between partners in Nottingham city, most notably between Health, LA, Police, Foster Carers and providers of residential accommodation. Performance against children in care targets in many areas continues to be strong.

The Council is about to embark on a further strategy to reduce the numbers of children coming into care. The Edge of Care Intervention Hub was launched in September 2013 which is for an initial 6 month pilot project, located and managed within the Targeted Support Team.

1.1.4 EMSS

No major concerns have yet arisen in this regard. Some issues have been faced in terms of financial management since the implementation, and delays have been experienced in making payments to certain suppliers. The causes of this issue have been addressed and the resulting payment backlog is being cleared.

1.1.5 Nottingham Express Transit (NET)

Construction of NET Phase Two is underway. The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

1.1.6 Workplace Parking Levy (WPL)

The WPL income projections will be continually updated to reflect the latest information available from the WPL team. In the event that over the life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract

1.1.7 Icelandic Banks

Since the banks went into administration in 2008, the Council has received a series of dividends from the administrators of the individual banks. The final sum to be received remains dependant on a number of factors including the exchange rate applied in converting payments received in currencies other than sterling, and the release from escrow of monies paid in Icelandic Krone.

1.2 Process for the Production of the AGS 2013/14

- 1.2.1 It is intended that the production of the AGS 2013/14 will closely follow the process of previous years noted by this committee, and the timetable is given at **Appendix 2**. The process will be managed by the Corporate Governance Steering Group (CGSG) as endorsed by the Executive Board on 20 May 2008 and which consists of senior colleagues representing Council services. A set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant groups and significant partnerships
- 1.2.2 . The assurance will come from a self assessment based on customised questionnaires targeted at the appropriate assurance givers, together with other information provided in support of the AGS. The questionnaires will be based on the Council's Code of Corporate Governance. Support throughout the process will be given by Internal Audit and the Head of Internal Audit who will visit all departmental management teams to discuss audit plans and introduce the 2013/14 AGS.
- 1.2.3 The questionnaires will be supported by a comprehensive guidance document provided by Internal Audit. Completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and external assurance providers, Council, Board and committee minutes, and the annual review of governance arrangements in significant partnerships.
- 1.2.4 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.

2. **BACKGROUND**

- 2.1 The Council's governance arrangements aim to ensure that objectives and responsibilities are set out and met in a timely, open, inclusive, and honest manner. The governance framework comprises the systems, processes, cultures and values by which it is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.
- 2.2 The publication of an AGS is required by the Accounts & Audit Regulations 2011. 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 2012) publication "Delivering Good Governance in Local Government Framework" provided the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting of 20 May 2008.

- 2.3 Included in this Committee's terms of reference is the core function that it should be "satisfied that the Authority's assurance statements, including the AGS, properly reflect the risk environment and any actions required to improve it."
- 2.4 In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken in time to deliver it alongside the Council's Statement of Accounts. The timetable (Appendix 2) will be used to monitor the progress of the AGS.
- 2.5 The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2012/13 on 27 September 2012. It was signed by the Leader of the Council and Chief Executive and was published alongside the Statement of Accounts.
- 2.6 The AGS reflects the governance framework operating within the Council and its significant partnerships. The issues identified and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.
- 2.7 Part of the 2012/13 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.
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 - The 2012/13 AGS also reported on issues of note which do not merit categorising as significant but require attention and monitoring to maintain and improve the system of internal control. As with significant issues these may have been brought forward from previous statements if the issues have not been finally resolved.

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

4. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

Accounts & Audit Regulations 2011

CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2007

CIPFA/SOLACE - Delivering Good Governance in Local Government Guidance Note, 2012

Executive Board 20 May 2008 - Local Code of Corporate Governance

Nottingham City Council - Statement of Accounts 2012/13

Annual Governance Statement 2012/13

AUDIT COMMITTEE – FEBRUARY 2014 –ITEMS TO FOLLOW UP.

Single Status

As part of Central Government's Single Status initiative to deal with equal pay issues, a major change in the remuneration structure for schools-based support staff is in progress. "Single Status", a new harmonised set of terms and conditions and pay and grade structure, was introduced for the majority of centrally based employees in November 2010 and the current exercise is designed to bring schools staff in line with this. There is a prospect of potential disruption and legal challenge to the decisions made to implement the new pay structure in schools (grading appeals and backdating of awards).

Updated Position

Single Status has now been implemented for all Nottingham City Council schools based staff, including casual workers in schools. This means that all central and school based NCC employees on Local Government Service (LGS) terms and conditions are now on one harmonised set of terms and conditions and one pay and grade structure. Work continues to look at the pay and terms and conditions of a small group of employees at the Royal Centre, who are currently working to BECTU terms and conditions.

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

As the coalition Government has undertaken a fundamental review of public spending which has reduced the level of funding available to the Council from 2010/11 onwards. The combination of the impact of the global recession and the need for a significant investment in some services placed severe pressure on the Council's financial resources. The 2009 budget process, through the in depth analysis of spending requirements and the opportunities to generate income, highlighted the need to reduce net expenditure across the City Council.

Updated Position

The Council responded to consultation documents highlighting concerns that a disproportionate share of the financial risk is being passed to local authorities and that the mechanisms create a questionable link between growth in businesses in an area and the need to fund demand led services such as social care.

The Medium Term Financial Plan has been reviewed to reassess pressures in future years as part of this process and reflects the culmination of the extensive work of councillors, colleagues and other stakeholders to fulfil a legal obligation to enable the setting of a balanced budget. Resources have been redirected by Identifying cost reductions arising from both efficiencies and policy issues, especially:

- Reviewing priorities and services and restructuring accordingly;
- Optimising external funding;

- Reviewing income streams;
- Implementing new ways of working and providing services

Children in Care

The Children in Care service exists primarily to ensure that children have permanent plans for where they live. Nottingham's priority for its children in care is to ensure that where possible, children live with their birth families. If that is not achievable then adoption and fostering are the next preferred options.

Children in care arrangements and associated budget pressures are key issues facing the service. There is a need to recruit and retain Social Workers to maintain stable safeguarding arrangements. Nottingham has seen, as in other areas across the country, a significant increase in the number of children in care over the past two years.

Updated Position

A plan is in place to reduce the numbers of children who remain in care over the forthcoming year. Part of this work involves systematic use of tools to help return young people to their birth families, having detailed exit plans for each young person, benchmarking all data against our statistical neighbours and ensuring a full complement of staff to deliver the business. Work is underway to match children and young people to adopters at an earlier point in the adoption process to ensure a stable and permanent family home for all our children in care. The renewed focus is the subject of a Big Ticket Project regarding reducing the numbers of children in care and speeding up the adoption process by tackling delay. Work in 2012 was undertaken to realign the children in care placements budget and to ensure that the use of a regional framework for all care registered and 16 plus accommodation was robust. This has resulted in some continued net savings on placement costs. Performance against placement stability and recording the wishes and feelings of children and young people continues to be strong.

There is strong collaboration between partners in Nottingham city, most notably between Health, LA, Police, Foster Carers and providers of residential accommodation. The Council has created a 'permanence team' which is the Children in Care Team. This became operational in April 2012. Further resources have since been agreed to support the effectiveness of the team to place children in permanency placements in a more timely way, and ensure delays are kept to a minimum. This is central to the strategy of ensuring better outcomes for our children in care population.

Performance against children in care targets in many areas continues to be strong and NCC largely out performs against its statistical neighbours. An area for growth and development against key performance targets is in ensuring the health of children in care is robustly monitored and action taken where appropriate. Speeding up adoptions and tackling delay is the second priority area. NCC does better than its statistical neighbours (with the exception of Middlesbrough) in the recently published adoption scorecard. There was a significant increase in the number of adoptions in 2012/13 compared with the previous year. Resources have been realigned to build on that progress, based on evidence of what works well. The authority has an ambitious target of 55 adoptions for 2013/14.

The Targeted Support Team continues to offer the effective delivery of services to children, young people and their families/carers. The reconfiguration of Nottingham City Council's Residential Services into Small Group Homes has served to support children and young people to be better placed, have improved outcomes in a cost effective manner and ensure young people receive a quality service that keeps them safe. All homes have met and exceeded minimum standards with 2 homes receiving an OFSTED rating of outstanding (Vivian Ave and Edwards Lane).

The Council is about to embark on a further strategy to reduce the numbers of children coming into care. The Edge of Care Intervention Hub was launched in September 2013 which is for an initial 6 month pilot project, located and managed within the Targeted Support Team. To date 13 children who have been seen by the intervention hub have not come into care providing a budget relief of between £276k and £549k (based on placement type).

East Midlands Shared Service (EMSS)

Leicestershire County Council (LCC) and Nottingham City Council (NCC) have been working in partnership to develop and implement an East Midlands Shared Service to support both transactional finance and HR administration/payroll processes. The shared service is supported by an implementation of the Oracle E-Business Suite. As is usual with this type of extensive system implementation, a great deal of focus has been applied to the financial control processes requiring review and redesign. Much of the risk for NCC has been mitigated by the fact that the Council was migrating to an existing LCC platform.

Latest Position

The Council's Accountancy and Audit services continue to closely monitor the activity and performance of the Oracle system closely. No major concerns have yet arisen in this regard. Issues have been faced in terms of financial management since the implementation on 2 April 2013, and delays have been experienced in making payments to certain suppliers. The causes of this issue have been addressed and the resulting payment backlog is being cleared.

Nottingham Express Transit (NET)

Nottingham City Council entered into a 22 year Private Finance Initiative concession contract with Tramlink Nottingham Limited ("Tramlink") in December 2011 to extend and operate Nottingham's tram network. The concession contract passes the key design, build and construction risks, to Tramlink, the private sector concession company.

Latest Position

Construction of NET Phase Two is underway with an anticipated date for the operation of the extended network of December 2014. The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

Workplace Parking Levy (WPL)

The WPL is a levy which applies to all employers within the Nottingham City Council administrative boundary. Employers that provide any workplace parking places are required to get a WPL licence and those with 11 or more chargeable places, to pay a charge, from 1 April 2012. An important issue focuses on the ability of WPL to raise revenue to meet the Council's contribution to the NET Phase 2, the HUB and Link Bus network. The scheme was introduced on 1st October 2011 and charging commenced in April 2012.

Latest Position

There has been concern regarding the ability of WPL to meet funding requirements. The WPL income projections will be continually updated to reflect the latest information available from the WPL team as the income collection is still in its infancy. In the event that over the 23 year life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

SIGNIFICANT ISSUES REPORTED

Icelandic Banks

In October 2008, as a consequence of the global financial crisis, the Icelandic banking system collapsed, with four of its banks going into administration. This impacted directly on the Council, which had a total of £41.6m deposited with three of the banks involved (Heritable, Landsbanki and Glitnir), at the time of the collapse.

Recovery of monies

More than 120 local authorities had similar deposits with Icelandic banks at that time, totalling some £920m. All these authorities joined forces, through the Local Government Association, to co-ordinate the recovery of the monies. In particular, lawyers were appointed to represent UK local authorities in the Icelandic Courts, whose role was to decide whether UK local authority deposits were treated as priority creditors in the administration process of Glitnir and Landsbanki banks.

Following a series of court cases in Iceland, the Council was confirmed as a priority creditor, with sufficient funds being identified within Glitnir and Landsbanki banks to enable, in principle, full repayment, albeit over a number of years and subject to foreign currency exchange rate fluctuations and future legislation changes.

Separately, the administration of the London-based Heritable Bank has been managed within the UK, with regular dividend payments to all creditors being made over the last 5 years.

Latest position

Since the banks went into administration in 2008, the Council has received a series of dividends from the administrators of the individual banks. The latest position in respect of the Council's deposits with each bank is:

- a) *Heritable Bank: original deposit £15.600m.* Dividend payments to date total £14.982m, including interest. The final sum to be recovered is currently estimated as £15.380m.
- b) *Glitnir Bank: original deposit £11.000m.* Dividend payments received to date total £9.210m, including interest. The balance of the monies paid was made in Icelandic krone and is currently in an interest-bearing escrow bank account in Iceland, pending the relaxation of currency controls by the Icelandic government. The final sum to be recovered, including interest is currently estimated as £11.324m.
- c) *Landsbanki Bank: original deposit £15.000m.* The banks administrators have made dividend payments totalling £8.197m to date, including interest. The balance of the monies is scheduled to be paid to all priority creditors over the next 5-6 years, although uncertainties exist regarding actual timing, currency exchange rate fluctuations and future Icelandic legislation. To mitigate these risks, the Council participated in a group auction of UK local authority creditor claims in January 2014 which resulted in the sale of the balance of its creditor claim. The payment received was £6.127m, giving a total receipt of £14.324m, including interest.

The following table details the amount of the Council's funds that have been returned to date, plus the current forecasted total recovery figure:

BANK	ORIGINAL DEPOSIT	TOTAL RECOVERED TO DATE			ESTIMATED FINAL RECOVERY		
		PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
	£m	£m	£m	£m	£m	£m	£m
Heritable	15.600	14.667	0.315	14.982	15.057	0.323	15.380
Landsbanki	15.000	13.689	0.635	14.324	13.689	0.635	14.324
Glitnir	11.000	8.694	0.516	9.210	10.690	0.635	11.324
	41.600	37.049	1.466	38.515	39.435	1.593	41.028

