

AUDIT COMMITTEE – 24 February 2017

Title of paper:	ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2015/16 AND PROCESS FOR PRODUCING 2016/17 STATEMENT	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
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Other colleagues who have provided input:		
Recommendation(s):		
1	Adopt the principles of good governance included in the CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2016 as the City Council's Local Code of Corporate Governance.	
2	Note the progress made to date in addressing the issues reported in the 2015/16 AGS, as detailed in this report.	
3	Note the process and timetable for compiling and completing the 2016/17 AGS, as detailed in Appendix 1 .	

1. REASONS FOR RECOMMENDATIONS

- 1.1 This report sets out the current position in respect of those issues reported in the 2015/16 Annual Governance Statement (AGS), and the process for compiling the 2016/17 AGS.
- 1.2 The guidance for implementing good governance has been updated in 2016 by CIPFA / SOLACE to reflect a revision to the international framework in 2014 (see below). It places the attainment of sustainable economic, societal and environmental outcomes as a key focus of the governance structures and processes, and stresses the importance of taking account of the impact of current decisions and actions on future generations.
- 1.3 The International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) defines governance as follows:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

1.4 It states that:

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

1.5 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



1.6 The International Framework notes that: Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review. The International Framework takes these core principles and identifies sub-principles which have been interpreted for a local government context by CIPFA / SOLACE in their 2016 guidance.

1.7 **Update of Issues Reported**

Issues identified in the 2015/16 AGS have been revisited and an update of the latest position established. In summary:

- 1.8 **EMSS:** The Council's Accountancy and Audit services continue to closely monitor the activity and performance closely. Issues have been faced in terms of financial management since the implementation and delays have been experienced in making payments. The causes of this issue have been addressed and the resulting payment backlog has been cleared. To provide clarity of responsibilities, a service level agreement has been set up between NCC and EMSS.
- 1.9 The restructure of Strategic Finance within NCC has seen the creation of a dedicated transactional team. This team will work closely with EMSS on improvement activity within Accounts Payable and Accounts receivable functions with the development of clear key performance indicators.
- 1.10 **Central Government Review of Local Government Funding and Balancing the Councils Budget:** The Government has implemented a rapid and extensive programme of policy change, accompanied by significantly reduced funding for the public sector. In response, service and financial planning processes have changed to:
- take account of the priorities within the Council Plan 2015-2019;
 - address demographic and service pressures through investment;
 - reflect the significant reductions in external funding (especially general and specific Government grants) by reducing expenditure on those activities;
 - support the Council's determination to be efficient, improve performance and modernise the organisation;
 - recognise the very challenging financial landscape and future outlook and the impact on all sectors, including the Public Sector;
 - continue to focus on regeneration and growth through capital investment
- 1.11 In addition, the Council's approach to setting recent budgets has, where possible, been guided by the following principles:
- to pursue commercialisation opportunities to generate income for the Council and help offset a proportion of the impact of grant reductions;
 - reducing demand and reviewing the way we commission our services;
 - redesigning and modernising our service provision / identifying efficiencies;
 - to protect frontline services and minimise the impact of service reductions and changes on vulnerable citizens.
- 1.12 **Children in Care:** The cost of funding children in care arrangements and associated budget pressures are key issues facing the service. We are making some improvements with reduction of agency staffing; for the first time in two years the three managers in fostering, adoption, and post order are substantive Nottingham City staff recruitment of carers continues to be a challenge, but we are continuing to meet and discuss our two key strands one related to recruitment and the other retention of carers on a fortnightly basis. A reward scheme has been put

in place to incentivise our existing carers to nominate friends and family to foster with the Council.

- 1.13 Plans have been put in place to manage the numbers of children who remain in care. In January 2017 we have 605 children in our care, an increase of 17 from April 2016. This is 92.5 per 10,000 child population, similar Councils had 96.3 per 10,000 child population in April 2016.
- 1.14 Over the last three years the number of unaccompanied asylum seeking children in our care has increased from 8 to 23, Home Office grant supports the placement cost of these children. The number of care leavers who were former unaccompanied children is currently 30. Many of this older group are in various processes post 18 relating to their right to remain in the UK.
- 1.15 In the 2017/18 financial year our recruitment of foster carers will be further strengthened with the additional capacity to ensure we respond promptly to prospective carers and support them through the process. Local Authorities continue to face aggressive competition from independent private sector agencies in the foster carer recruitment arena.
- 1.16 A parliamentary select committee is examining the challenge of foster carer recruitment nationally. A member of that committee Lillian Greenwood MP has met with our foster carers and managers as part of the committee's evidence gathering process.
- 1.17 82.5% of our supported care leavers are aged 19-21 which is equal to national average and slightly higher than similar Councils average of 81.1%. Nottingham's has 56.1% of care leavers in employment, education or training greater than the national average of 49.3% and the similar council average of 47.7%.
- 1.18 The local CCG have just announced Department of Health funding for a new post to drive performance in relation to children in care health attainment.
- 1.19 In this financial year we are on track to meet our targets for adoption and other permanence outcomes for our children. The Department for Education have examined our adoption performance, and we had positive feedback regarding finding adopters for hard to place children such as a large sibling group of six who we managed to place together, and children with special needs.
- 1.20 Involvement in the criminal justice process of children in care aged 10-17 has fallen significantly in recent years from 16% to 5% and is now in line with similar Councils. Our part funding of a Police Officer post to work with children in care at risk of going missing or sexual exploitation, or other crime has received increasing recognition from other local authorities. South Yorkshire Police recently visited to look at this model. Mental Health Services and Education representatives continue to attend our weekly panel to review complex cases. A quality assurance officer based in the placements service monitors the quality of purchased placements, and visits external residential provision.

- 1.21 Our residential Children's homes continue to perform strongly when visited unannounced for inspection by Ofsted. Over the last 18 months our 7 Ofsted registered homes have been inspected unannounced by Inspectors on 21 occasions twenty of those visits have been judged as good or outstanding, on one occasion we received a requires improvement outcome. Our five semi-independent homes continue to provide excellent transition to independence for our young people.
- 1.22 A team of four HMI Ofsted inspectors visited the Council's children's services between 23rd January and 3 February 2017 to pilot a new inspection framework. Feedback was very positive overall with improvements noted in children in care social work fostering and adoption.
- 1.23 **Nottingham Express Transit (NET):** Construction of NET Phase Two is complete. A reliable operational service is now being delivered across an expanded tram network. 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. and overseen through a robust governance structure.
- 1.24 **Workplace Parking Levy (WPL):** 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. Should forecasts indicate that insufficient WPL income may be generated over the life of the NET Phase 2 contract to achieve a balanced position by 2033/34, decisions may be made in respect of the ongoing contributions to the Green Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.
- 1.25 **Information Governance:** 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 management activities in order to mitigate against potential risks, and realising greater operational efficiencies and improved customer services. An Information Management Assurance Board is being established, led by the SIRO to ensure information is managed in an holistic manner across the whole organisation with a focus on compliance, transparency, and efficiency.
- 1.26 Performance associated with requests under Freedom of Information and Environmental Information Regulations continue to remain above the recently increased statutory target. Previous challenges associated with managing and processing personal information requests under the Data Protection Act (DPA) have been addressed and performance is now routinely in line with statutory expectations. Focussed activity around establishing sustainable operating models to ensure continued compliance in responding to all types of information requests is ongoing.
- 1.27 The council is compliant with the Department of Communities and Local Government's Transparency Code 2015, and continues to lead in proactively making datasets available for re-use, via the Open Data Nottingham portal, thereby providing continued commitment to the council's value of being open and

transparent. A recent internal audit identified a positive direction of travel in terms of how the Information Rights & Insight Team review and make non-personal information available.

- 1.28 The Information Commissioners Office (ICO) has recently concluded its review of the consensual Data Protection Audit carried out in 2014. The ICO reported that she found it encouraging to see a significant improvement since the last review and now considers this review closed. However, the ICO does expect that the commitment demonstrated by NCC in improving its compliance with the DPA to be maintained.
- 1.29 In May 2018, the EU General Data Protection Regulation (GDPR) will replace the Data Protection Act 1998. The GDPR imposes new, and significantly more stringent, requirements for the handling of personal data. Although the position regarding the GDPR is not wholly clear, it is recognised that new procedures will need to be put in place to deal with the provisions of the GDPR associated with transparency and individuals' rights. Internal Audit were commissioned to carry out a gap analysis as part of the Council's ongoing preparations for the implementation of the GDPR, focusing on actions required to ensure compliance and to identify areas where additional work is required before May 2018. In addition, the GDPR places greater emphasis on the explicit design of organisational and technical measures to secure compliance with its principles (privacy by default and design). It is recognised there could be significant associated budgetary, I.T., personnel, governance and communications implications. The internal audit report findings, and the ICO's 12 step GDPR checklist, are being used to develop the Council's GDPR action plan.
- 1.30 **Information Technology:** The Council commissioned a report considering several key areas where the Council's IT Service has run installed infrastructure to the end of its useful life, with the view of identifying where investment is required to enable the Council to operate a technical environment that is fit for purpose. An improvement programme has been put in place to ensure that a continuing high level of IT service will be delivered.
- 1.31 **Robin Hood Energy:** 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 now established including weekly management meetings and bi-monthly Board meetings. The Board comprises five Directors (all Councillors).
- 1.32 **Enviroenergy:** The Council wholly own this private limited company which both generates heat and power and sells heat and power to commercial and domestic customers in Nottingham. The company has launched additional commercial services, billing provision for a number of housing associations outside Nottingham and the development and sale of a heat monitor. The Board comprises 5 Directors (all Councillors) and meets on a bi-monthly basis.

1.33 The new appointment to Head of Enviroenergy, together with other key managerial appointments, is delivering new focus on infrastructure, investment and expansion with noticeable benefits in the following business performance areas necessary to sustain a heat network for the next 30 years :-

- Asset Care, Engineering Risk, Statutory Maintenance, Environmental Compliance, Capital and Revenue expenditure, Income enhancement, Budget Control, Health & Safety, Training and Development, Operational Efficiency, Customer Services and Private Wire and District Heating Expansion and Strategic planning.

1.34 **Nottingham Revenues and Benefits (NRB):** The Council has entered into a partnership with Northgate Information Solutions for the provision of Revenues & Benefits Services. A unique element of the partnership is that Northgate are contractually-bound to sub-contract the work to Nottingham Revenues & Benefits Limited, a wholly-owned Nottingham City Council company. Governance arrangements established incorporate monthly Operations Board meetings which have been held continuously throughout 2016/17 as have quarterly Partnership Boards. Transformation Board meetings were held on 6 dates in the first 3 quarters of 2016/17 and having delivered the Service Improvement Plan have now ceased. The company's Board comprises 4 Directors (3 councillors and 1 officer) and meets on a quarterly basis with technical representation where required.

1.35 **Blueprint Partnership Limited / Blueprint (General Partner) Limited:** The Council and its partner Igloo Regeneration Fund each have two Directors on the Blueprint Board with equal voting rights. Any decisions relating to the business, including investment of funds into the vehicle, have to be jointly agreed. Failure to reach agreement would lead to a deadlock situation being invoked. Any decision affecting or requiring resources from the Council are reported to the Council's executive board/portfolio holder for a decision to be made where there is an impact on the MTFP.

1.36 Process for the Production of the AGS 2016/17

- It is intended that the production of the AGS 2016/17 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.
- 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.
- 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 2016/17 AGS.
- 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.

- 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 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 2016/17 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.
- 2.3 In 2012 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
- 2.4 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."
- 2.5 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.
- 2.6 The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2015/16 on 18 September 2015. It was signed by the Leader of the Council and Chief Executive and was published alongside the Statement of Accounts.
- 2.7 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.

- 2.8 Part of the 2015/16 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 2015/16 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 2015
CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2016
- Executive Board 20 May 2008 - Local Code of Corporate Governance
Nottingham City Council - Statement of Accounts 2015/16
Annual Governance Statement 2015/16

Action	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Sept 2016	Oct 2016	Feb 2017	Mar 2017
Draft AGS, outlining the governance environment and any significant governance issues that need to be disclosed										
Take report to Audit Committee as the committee responsible for monitoring compliance with the Local Code										
Consider Issues from External Audit Annual Letter										
Report Final AGS to Audit Committee with Statement of Accounts										
Prepare / follow-up mid year report to Audit Committee for first meeting of new year										