

AUDIT COMMITTEE – 22 February 2019

Title of paper:	ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2017/18 AND PROCESS FOR PRODUCING 2018/19 STATEMENT	
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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 2017/18 Annual Governance Statement, as detailed in this report.	
2	Note the process and timetable for compiling and completing the 2018/19 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.*

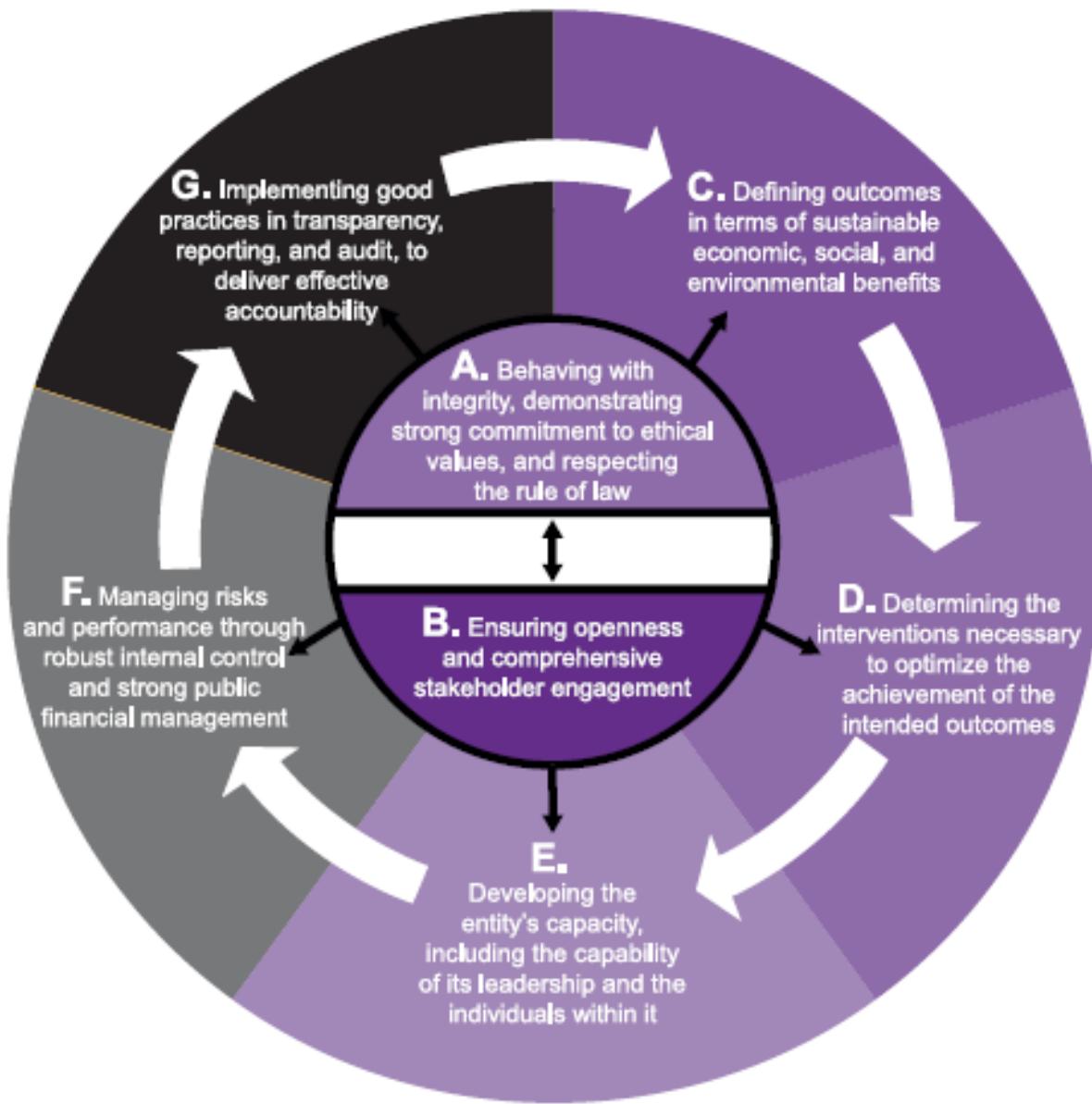
The associated functions are to

- 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 2017/18 Annual Governance Statement (AGS), and the process for compiling the 2018/19 AGS.
- 1.3. The National Audit Office's recent 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. In Summary

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, the 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 for example, a new invoice scanning solution was introduced in 2017/18 which embraces developments in OCR (Optical Character Recognition) technology which has provided for a more efficient and effective Accounts Payable service. However the current Oracle implementation has a number of deficiencies which, when addressed, would deliver efficiency and effectiveness benefits to 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 implementation has a number of deficiencies which, if addressed, would be likely to deliver efficiency and effectiveness benefits to the Councils. A tender was concluded in 2017-18 to purchase the Oracle Cloud solution and it is expected that the system will be operational no later than April 2020.
- 2.6. The expected key benefits are:
- Be able to report from one single source of information, reliably, quickly and without manual intervention;
 - Improve the user experience, reduce the need for manual, paper-based processes and enable managers to have greater visibility of their financial and workforce information on-line;
 - Eliminate duplicate data processing;
 - Be accessible and easy to use;
 - Support a mobile and diverse workforce;
 - The ability to meet the Councils' ambition to commercialise the shared services operation.
 - Reduction in time to perform specific tasks and functions;
 - Reduction in external spend;
 - Reduction in the total cost of ownership (TCO) of the IT estate;
 - An improvement in management information; and,
 - A reduction in the risk of loss, error or fraud.

Central Government Review of Local Government Funding and Balancing the Councils Budget

- 2.7. 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

- 2.8. 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
- 2.9. The City Council, like all other local authorities across the country, has seen a substantial and sustained reduction in Government funding because of austerity policies and continues to operate in a challenging financial environment; with the full consequences of Brexit yet unknown.
- 2.10. Consultations are continuing with local government with regard to policy areas such as Fair Funding Review and business rates retention. The likely implementation date will be 2020/21 but to date no firm proposals have been announced by MHCLG.
- 2.11. 2018/19 is Nottingham's third year of a 4-year settlement agreed with the Ministry of Housing, Communities and Local Government (MHCLG) which has seen the continuation of significant reductions in Revenue Support Grant (RSG) as a proportion of the Council's total revenue funding. RSG has fallen from £126.8m in 2013/14 to £35.0m in 2018/19, with a further reduction for 2019/20.
- 2.12. The Council's Budget and Medium Term Financial Plan will be presented to Executive Board and Full Council in March 2019 and these updates will be reflected in the 2018/19 Annual Governance Statement
- 2.13. Saving proposals have been made in accordance with NCC budget strategy and many of these have been achieved by finding alternative and more cost-effective ways to deliver the same level of service, or by improving efficiency without any detriment to service delivery, as well as generating more income. However, the options for achieving further budget reductions in this way are becoming more limited.
- 2.14. The 2018/19 budget is predicated on sustainable solutions being found to address the budget issues behind recent revenue overspends for 2016/17 and 2017/18. The 2017/18 monitoring has been reported to Executive Board and the outturn position is currently projecting an overspend of £4.2m, work is being undertaken to mitigate this overspend.

Housing Revenue Account – HRA

- 2.15. 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 requires 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. There is uncertainty over future rent policies after the four year period

Children In Care

- 2.16. Work continues to ensure that only those children and young people who need to be are into care and that the plans for those children who are in care are progressed in accordance with their needs. At the end of January 2018 we had 621 children in care, 29 of who were unaccompanied asylum seeking children and 11 of who were remanded to care as part of a criminal investigation.
- 2.17. In December 2018 there were 450 children in foster placements. 50% of these placements were with Nottingham City foster carers, which reflects an ongoing improvement from the 45% who were placed with internal carers in March 2018 and 39% in April 2017. This is an outcome of the ongoing investment into recruiting Nottingham City Foster carers.
- 2.18. In December 2018 82.6% of care leavers were in suitable accommodation and 49.3% were in Education, Employment or Training (EET). Action has been taken to address the small reduction in the EET cohort through backfilling the vacant EET lead in the Leaving Care service
- 2.19. Just under 82% of children in care live within 20 mile of Nottingham, which is slightly under the target of 85%. Work continues to create local placements for children in care, both fostering and residential. In June 2018 we opened a new small residential until, which was inspected by Ofsted in November 2018 and judged to be good overall. In Spring 2018 our short-term residential unit had a highly complex group of young people who created a range of challenges and as a consequence the inspection judgement for that home was moved from Good to Requires Improvement. A series of actions have been taken in response to this and we are confident that things have improved. Of the remaining six homes, all except one have been recently re-inspected two are judged outstanding and three good. We anticipate that the final home will be re-inspected shortly. It is currently judged to be good.

Workplace Parking Levy (WPL)

- 2.20. 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 has been agreed 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 from 2018/19 of the balance of the Prudential Borrowing repayments in respect of the £100m capital contribution paid to Tramlink Nottingham Ltd. in 2015/16.

Information Governance

- 2.21. 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. An Information Compliance Board has been 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. A Data Protection Officer has been appointed to advise on all data protection matters across the Council.

- 2.22. Performance associated with requests under Freedom of Information and Environmental Information Regulations continue to remain above the recently increased statutory target. There are still challenges associated with managing and processing personal information requests under the Data Protection Act (DPA) and performance has currently dropped below new statutory expectations. Steps have been taken to address this issue with a view to achieving the standard as soon as possible.
- 2.23. 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. 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 currently in the process of collating those datasets recommended for publication, with an aim to publish them in the coming year.
- 2.24. In May 2018, the EU General Data Protection Regulation (GDPR) replaced the Data Protection Act 1998. The GDPR imposes new, and significantly more stringent, requirements for the handling of personal data. New procedures have been 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 was 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). Significant associated budgetary, I.T., personnel, governance and communications implications were recognised. The internal audit report findings, and the ICO's 12 step GDPR checklist, were being used to develop the Council's GDPR action plan. A GDPR project manager has now been appointed. Their main role has been to implement the GDPR action plan by means of the data flow mapping project and completing compliance assessments. The project officer is working alongside audit to continue to develop an information assurance framework and to ensure that the GDPR action plan is fully implemented.

Robin Hood Energy

- 2.25. 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 Chief Executive Officer also meets with shareholder representatives on a quarterly basis to review company performance and management accountability, alignment of business and operating principles, forward planning, and other activities conducted under the governance framework. The Board comprises 8 Directors, of which 4 are councillors, 3 are executive managers (Chief Executive Officer, Finance Director and Operations Director) and 1 Non-Executive Director from EBICO (White Label Partner).

Enviroenergy

- 2.26. 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 Board comprises 5 Directors (all Councillors) and meets on a bi-monthly basis.
- 2.27. A new General Manager was appointed in 2018 bringing significant improvements to staff stability, operations & maintenance, Health & Safety and licencing.
- 2.28. A permit improvement programme was developed in cooperation with the Environment Agency and submitted in October 2018.
- 2.29. In August 2018, the Company was successful in retaining its ISO 14001 Environmental Management standard providing a high standard of environmental consideration and compliance on site. The management standard gives Enviroenergy a comprehensive management structure for ensuring continual improvement.
- 2.30. Enviroenergy continues to work closely with the Council (as shareholder) in the development of a sustainable long term financial strategy to ensure investment obligations and scheme longevity are deliverable and affordable to the company.

3 Process for the Production of the AGS 2018/19

- 3.1 It is intended that the production of the AGS 2018/19 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 2017/18 on 20th July 2018. 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 2017/18 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 2017/18 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

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 2017/18

Annual Governance Statement 2017/18

NAO – Local Authority Governance (15th January 2019)

AGS 2018 / 2019 Process

APPENDIX 1