

# Annual Governance Statement 2018/19

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## **1. NCC Responsibility for Implementing Good Governance**

- 1.1. Nottingham City Council (NCC, the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a 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.
- 1.2. 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, this includes arrangements for the management of risk, and a sound system of internal control.
- 1.3. 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. A copy of the code is available on our website at <http://www.nottingham.gov.uk/governance>. This statement explains how the Council has complied with the code in 2018/19 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.
- 1.4. 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, and the role of those responsible for the development and maintenance of the governance environment such as the authority, the executive, the audit committee and others as appropriate.

## **2. Purpose of the Governance Framework**

- 2.1. Good governance helps the Council to set good objectives and achieve them.
- 2.2. The guidance for implementing good governance was 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.

## **3. The Governance Framework**

### **Governance principles & how NCC aims to meet them**

- 3.1. 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**



3.2. 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>	
Councillors' and Co-opted Members' Code of Conduct	Employees' Code of Conduct
	Scheme of Delegation
Councillor / Officer Protocol	Performance Appraisal
Counter Fraud Strategy	Confidential Reporting Code
Registers of Interests, Gifts & Hospitality	Declaration of Related Party Transactions
<u>B. Openness and Engagement</u>	
Customer Charter	Consultations
Comments, Compliments and Complaints Policy (Have Your Say)	Partnership Governance Framework
	Citizens' Panel
Freedom of Information arrangements	

<u>C. Defining Outcomes (decision making)</u>	
2030 Vision	Constitution including <ul style="list-style-type: none"> <li>• Responsibilities for Functions and Terms of Reference</li> <li>• Councillors' and Co-opted Members' Code of Conduct</li> <li>• Procedures and Standing Orders</li> </ul>
Metro Strategy	
Council Plan	
Nottingham Plan to 2020	
Business plans / Service plans	
Decision-making protocols & records	
<u>D. Interventions</u>	
Performance Management Framework	Budget Monitoring
Early Interventions	
<u>E. Capacity and Capability</u>	
Member Induction & Training	Officer Induction
Performance Appraisal	Learning Zone
Peer Review	
<u>F. Risks and Performance</u>	
Risk Management Framework	Medium Term Financial Plan
Financial Regulations	Counterfraud Team
<u>G. Effective Accountability</u>	
Annual Financial Statements	Partnership Governance Framework
Nottingham Plan Annual Report	External Audit and Inspection

### **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

- 3.3. The Council's Code of Conduct and Standards Committee arrangements were reviewed to reflect national requirements in the light of national provisions. In advance of the local elections in May 2015, the Council agreed that its code of conduct should be amended to require all councillors to have a DBS check within one month of election and to maintain that check during their terms of office as a councillor, or otherwise be in breach of the code and disbarred from all offices and appointments. In addition, attendance at safeguarding training has been made mandatory. These additional provisions in the Code are designed to strengthen the Code and public confidence in councillors.
- 3.4. Councillors are briefed in detail at induction by the Council's Monitoring Officer about the Code of Conduct and what its provisions mean in practice. The Code of Conduct forms part of the Council's Constitution and in addition there is a Councillor/Officer Protocol which is included in the Constitution to which all colleagues and councillors are alerted and have access which defines how councillors and officers should work together appropriately and the standards of personal behaviour and conduct expected. There is no formal code of conduct

performance management system for councillors – but, where appropriate, early, and initially informal referral and discussion of any issues/ complaints either from colleagues or from citizens by the Monitoring Officer, to the relevant group whip or the individual councillor concerned, is effective and adequate in most instances. More serious matters would be investigated formally if required and referred to the Monitoring Officer in the first instance and then to the Standards Committee if appropriate.

- 3.5. Nottingham City Council aims to ensure that personal information is treated lawfully and correctly. The lawful and correct treatment of personal information is extremely important in maintaining the confidence of those with whom the Council deals and in achieving its objectives. During 2017/18 and early 2018/19 the Council prepared to meet the changed requirements of data protection legislation which were introduced from 25th May 2018 under the General Data Protection Regulation and Data Protection Act 2018. This included appointment of a Data Protection Officer and refreshing the privacy notice, policies and guidance pertaining to data protection for the City Council.
- 3.6. As Head of Paid Service, the Chief Executive is ultimately responsible and accountable to the Council for all aspects of operational management.
- 3.7. The Council's establishment incorporates all posts required by statute. Two key roles are performed by the Monitoring Officer and Section 151 Officer. Both of these roles were handed over successfully in 2017 as a result of retirement. The roles of these officers are clearly defined in their job descriptions and summarised below.

Key Posts	Statutory	Summary of Role
Monitoring Officer		Undertaken by Director of Legal & Governance. Ensures that agreed procedures are followed including all applicable statutes, regulations and statements of good practice Manages arrangements for whistle blowing Ensures that professional advice is taken before making decisions with legal / financial implications, and reports to boards and committees include this advice
Section 151 Officer	151	Undertaken by the Director of Strategic Finance. The Council Provides the Council with advice on financial matters Manages the keeping of financial records and accounts Ensures that effective systems of internal financial control are maintained

- 3.8. The Constitution and its appendices define the delegated roles and responsibilities of key post holders, the Leader and executive councillors and decision-making bodies of the Council in detail. NCC has adopted the 'Strong Leader and Cabinet' model of executive governance as set out in the provisions of the Local Government Act 2000 (as amended), and this is reflected throughout the constitution. The Leader approves and reports changes to the Constitution including those to financial reporting for approval at a meeting of full Council. The Monitoring Officer may make changes to the constitution to comply with the law.

- 3.9. The Council's long-time Leader decided to step down as a councillor at the 2019 elections, and a new Leader was elected at the full Council meeting on 20th May 2019.
- 3.10. The Council has set out budget and policy frameworks, which define how budget and policy decisions are made. These include setting each year's budget.
- 3.11. In order to ensure that the Council acts in the public interest at all times the Chief Executive has communicated expectations within a message map as part of the Council's Good to Great journey as follows

### Message Map



## B. Ensuring openness and comprehensive stakeholder engagement

- 3.12. The Council has a Research, Engagement and Consultation team that leads on corporate engagement, for example the annual Citizens Survey. They also provide detailed advice and guidance on all aspects of research, engagement and consultation for colleagues across the authority. The team aims to analyse and publish results from internal and external consultations.
- 3.13. The Engage Nottingham Hub brings together consultation activity undertaken by Nottingham City Council and its partners, and provides stakeholders with an

opportunity to have their say on the issues they consider important, including the Citizens' Panel, Have Your Say, and Consultations. The hub contains information about individual consultations and it highlights the key findings which have come out of consultation activities

- 3.14. The Neighbourhood Management concept has been developed in Nottingham since 2007. Locality working is based on the key tenets that the local level is the most effective level at which to engage citizens and service users, and fixing local problems, however small, has a profound effect on citizen's quality of life. The city has 19 Neighbourhood Action Teams (NATs) (one in each ward, apart from the Castle ward which is covered by a separate City Centre Management Group) headed up by a dedicated Neighbourhood Development Officer working in partnership with key agencies. Each NAT is closely linked to its ward city councillors and the appropriate City Council area committee (which comprise of two-three neighbouring wards). The NAT model is based on early intervention, aiming to reduce citizens' need to engage with costly Council or health services unnecessarily. They work with citizens to actively shape services and their neighbourhoods, supporting social cohesion. The service is currently under review to ensure the work it has done to date can be sustained and for it to leave a legacy with a high degree of co-production of activities and delivery with citizens and partners.
- 3.15. Key strategies are published on the Nottingham Insight website.
- 3.16. The Chief Executive and Corporate Directors engage with all staff and specific groups through various channels including the council's intranet, email newsletters, information screens and through managers. The Council also engages with its staff through the Colleague Opinion Survey, which is managed and reviewed by the Development and Change team.
- 3.17. Complaints can be made in various open and transparent ways including through the internet, councillors, the Director of the service or office responsible. Have Your Say is now managed through a dedicated Customer Relationship Management (CRM) system. Access to the Ombudsman is well publicised.
- 3.18. The Local Government Ombudsman (LGO) report presented to Audit Committee identified a similar level of complaints referred to Ombudsman to the previous year. The most frequent areas for complaints reflect the national picture. The level of LGO upheld complaints was less than in the previous year, and the upheld rate among the best performing authorities. The rate at which the Ombudsman upheld complaints was down from 48% in 2015-16 to 35% in 2016-17 and 27% in 2017-18. This is below the national rate of 57% and the Core Cities average rate of 62%. This provides confidence in the complaints process.
- 3.19. The Council's performance in respect of Freedom of Information and Environmental Information Regulations requests remains better than the statutory target.
- 3.20. One Nottingham (ON) Board meetings are open to the public with papers published in advance. ON Board will be reviewing the progress and relevance of the Nottingham Plan to 2020 as it nears its end and the ambition contained within the 2030 vision and engaging with the City Council Portfolio Holder.

### **C. Defining outcomes in terms of sustainable economic, social, and environmental benefits**

- 3.21. The Council defines outcomes through a number of processes including agreeing a long-term vision, agreeing medium term and shorter term plans.
- 3.22. The Council's vision is wholly aligned with that of the City as set out in the 2030 vision and Nottingham Plan to 2020. Accordingly, this vision is not subject to annual review.
- 3.23. Over the period 2015-2020 the Nottingham Plan to 2020 has set the overall strategic direction and vision for the economic, social and environmental wellbeing of the City of Nottingham and focuses on the following six themes (with three important cross-cutting aims of Aspiration, Green and Fairness):
- World Class Nottingham
  - Neighbourhood Nottingham
  - Family Nottingham
  - Working Nottingham
  - Safer Nottingham
  - Healthy Nottingham
- 3.24. Following elections in 2019 it is envisaged that new plans and vision will be developed supported by a fresh framework of performance indicators for the Council Plan, Nottingham Plan, corporate health, strategy and operations, together with citizen survey data and selected statutory returns.
- 3.25. The One Nottingham Partnership has reprioritised the Nottingham Plan targets to make the reporting processes more streamlined. In the light of this exercise, the One Nottingham Board agreed to receive periodic management reports of the targets and to concentrate on some areas in which they, as members of the Board and partners, are able to make the best impact and to which they can make a unique contribution. Regular performance reports on the progress in delivering Nottingham Plan objectives are provided to ON Board to review performance.
- 3.26. The ON Board has begun to consider the successor to the Nottingham Plan to 2020 which it is planning to base around aspirations and fairness/ and system change. It will do this with the support of partners and the One Nottingham Chief Officer Group. Partners are expected to agree to the terms of the Code of Conduct.
- 3.27. The Derby-Nottingham Metro Strategy 2030 is a partnership between Nottingham and Derby City Councils, and has been joined by Gedling Borough Council. The partnership is not a constitutional arrangement. Its aim is to identify activities where the councils can combine, with the overarching objective of building a global reputation for both cities as exciting places to live, work and play. An example of this is the delegation of commercial waste services by Derby City Council to Nottingham City Council.
- 3.28. The outgoing Council Plan, was approved by councillors. It set out the Council's ambitions for the city over the 4 years up to 2019. This includes the following 5 key objectives for the Council to deliver:

- Ensure that every child in Nottingham is taught in a school that is judged good or outstanding by Ofsted
  - Build 2,500 new homes that Nottingham people can afford to rent or buy
  - Cut the number of victims of crime by a fifth and continue to reduce anti-social behaviour
  - Tackle fuel poverty by setting up a not for profit energy company, to sell energy at the lowest possible price to Nottingham people
  - Guarantee a job, training place or further education plan for every 18-24 year old
- 3.29. The Council Plan puts continued emphasis on placing citizens at the heart of everything the Council does to shape its service delivery going forward. It has clear priorities with associated performance measures supported by delivery plans containing the key milestones and measures for each Plan priority. On a monthly basis, the Corporate Leadership Team manages major changes, including all internal transformational projects and programmes, which together ensure that the Council is well placed to lead Nottingham and optimise what it does for and on behalf of its citizens.
- 3.30. A corporate template was developed in 2016, which is followed by the majority of services in constructing their business plans. Business plans capture how the Council delivers the Council Plan objectives. These in turn feature in colleagues' own Performance Appraisals to detail how the work they do contributes to the delivery of the Council's key priorities.
- 3.31. The Council Plan and other key plans such as the Children & Young People's Plan are published and are available to all members of the public. Financial statements are published annually and equally the Medium Term Financial Strategy (MTFS) is a publicly accessible document. Regular updates and reviews ensure consistency within plans and reflect national developments including the effects of reduced Government funding. Ultimately this means the Council's priorities and those of its key partners, over both the short and long term, are in accord. The principles underpinning the Plan are summarised in the updated Council's 'Message Map', which illustrates the direction and focus for the Council.
- 3.32. Portfolio Holders and the Executive Board make decisions based upon colleague recommendations and in response to changing legal or financial obligations. The reports containing recommendations to be considered clearly explain the technical issues and their implications and relate the recommended action to agreed policies and strategies. Where more than one course of action is possible the alternatives are analysed and justification given for the preferred choice.
- 3.33. Professional advice is taken when decisions have legal or financial implications; this is done in advance of decision-making. Advice on legal and financial matters is taken from internal, and where necessary, external sources. Portfolio Holders also have a common responsibility to promote and be accountable for their services nationally and internationally as required. They also represent the Council's views on matters of corporate or strategic policy within their portfolio. The Leader of the Council also has responsibility to promote the City, the Council and its core values and objectives.

3.34. The advice given will usually be contained within the decision papers and will be presented to the appropriate meeting to facilitate discussion. Reports are circulated with the agenda where possible, to allow consideration in advance of the meeting at which a decision is to be taken. Where applicable, the recommendation will be supported by appropriate external evidence or advice. Minutes of Council, Board and Committee meetings are available to the public.

#### **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

3.35. The Corporate Leadership Team (CLT) manages major changes on a monthly basis, including all internal transformational projects and programmes, which together ensure that the Council is well placed to lead Nottingham and optimise what it does for and on behalf of its citizens.

3.36. Progress monitoring of the Council Plan is undertaken quarterly through a series of exception reports to both CLT and Council Executive. Business plans are in place for all key Council services and the actions and performance indicators are monitored quarterly, reviewed, and refreshed on an annual basis.

3.37. The Council's Early Intervention approach provides integrated support to children, adults and families as soon as a problem begins to emerge or where there is a strong likelihood that problems will emerge in the future. In addition, by focussing on root causes there is an aim to prevent or reduce future demand for specialist services bringing down costs in the long term.

3.38. During 2018-19 use of the corporate performance system has been refined, including performance data and commentary at departmental level, graphs and customised dashboards to improve the contribution of performance management systems to achievement of intended outcomes.

3.39. The Council's budget monitoring arrangements exist to identify variance from the financial plan at an early stage, allowing appropriate intervention to take place to understand and correct performance.

3.40. During 2018/19 the Council has continued to restructure its operations to meet its responsibilities within the resources available.

#### **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

3.41. The Council holds all out elections every four years and the main councillor induction programme is delivered in the weeks following the election. Where a councillor is elected at a by-election an individual induction programme is held. Mandatory training as part of the induction includes training on safeguarding and on the Code of Conduct. The induction programme is developed by the Councillor Development Steering Group (CDSG) which is made up of cross-party councillors and relevant colleagues. New councillor inductions are in place and largely completed following the City Council elections in May 2019. As well as information/ training sessions the induction will also include an IT skills audit to support councillors in working electronically.

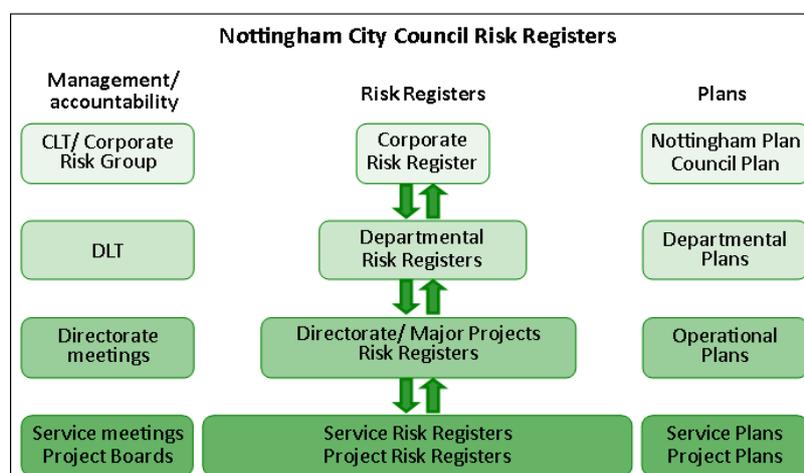
3.42. CDSG also manages the planning of in-year training for councillors. Current planned training includes a range of 'on the front line' opportunities, training in GDPR and in the use of social media.

- 3.43. Following the adoption, in full, of the recommendations of the Independent Remuneration Panel in January 2017, a revised Members' Allowances Scheme was implemented from May 2017. Details of the scheme are published on the Council's website as part of the Constitution. Amounts paid to individual Councillors, including claims made under the scheme for the reimbursement of Travel, Subsistence and Carers' Allowances are checked on a monthly basis and payments and both are publicised in line with legislative requirements. A recent audit of Members' Allowances, concluded during April 2019, gave a rating of Significant Assurance (the highest awarded).
- 3.44. Succession planning for the Deputy Monitoring Officer is in place.
- 3.45. Further arrangements are being developed with regard to company governance with a view to strengthening the Council's resilience and levels of control.

## F. Managing risks and performance through robust internal control and strong public financial management

- 3.46. The Council's Risk Management Framework and associated arrangements were reviewed during 2018/19. To support roll out of a refreshed Framework and Strategy in 2019/20, workshops are scheduled with the Departmental Leadership Teams to review their current risk registers using the revised Framework as the consistent standard. Work continues to develop the corporate risk registers and a Corporate Risk Group will be established to support Corporate Leadership Team (CLT) in managing corporate risk.
- 3.47. Risk registers are used across the Council to record the risk exposure (the risks and their characteristics) and the decisions taken as a result of that knowledge (e.g. new mitigations) related to the relevant Council plan. Risk registers are reported regularly to Service, Project, Directorate, Departmental and Corporate Leadership Teams and the Corporate Risk Register is also presented to Audit Committee to provide assurance of the effectiveness of the Council's risk management processes.
- 3.48. Risks can move between registers based on seriousness and required oversight and support. Major Projects and Directorate Risk Registers are used to inform Departmental Risk Registers which then inform the Corporate Risk Register. The escalation process is shown diagrammatically as follows.

### Risk Reporting and Escalation Process



3.49. An essential element of good governance is the existence of sound arrangements for the management of financial resources.

3.50. The Chief Finance Officer (CFO) is a professionally qualified accountant and has put in place mechanisms to ensure compliance with CIPFA's statement on the 'Role of the Chief Financial Officer in Local Government'. The CFO sits on the CLT and is able to contribute positively and influence decision-making affecting the delivery of the Council's objectives. The CFO is able to promote good financial management and in so doing makes sure effective use is made of City Council resources and ensures that the finance function continually develops and remains fit for purpose. The following illustrates the Financial Framework put in operation to support the delivery of the Council's objectives.

### The Financial Framework

CATEGORY	OVERALL	REVENUE	CAPITAL	TREASURY MANAGEMENT	PROCUREMENT	RISK MANAGEMENT
Strategies	<b>MTFS</b>					
		Income Generation Strategy	Capital Strategy & AMP	Treasury Management & Debt Repayment Strategies	Procurement Strategy	Risk Management Framework
Guidance	IFRS LAACOP CIPFA & technical guidance HMRC Tax Regulations	Budget Guidelines	Capital Guidelines	CIPFA Prudential Code for Capital Finance in Local Authorities & Code of Practice for TM	CIPS Procurement Toolkit	Risk Management Policy and Guidance
Plans	MTFP	Annual Budget	Capital Programme & AMP	Treasury Policy Statement	Procurement Checklist	Risk Responses
Governance	Constitution	Budget Management & Control statements & Local Code of Corporate Governance		Prudential Indicators & Annual Report	Contract & Finance Procedure Rules	Risk Register reporting and regular review
	Financial Regulations and Standing Orders					Audit Committee Reports & annual report

3.51. The Chief Finance Officer is responsible for providing guidance on setting up companies. Corporate Directors and the Director for Public Health must seek approval from the Chief Finance Officer and Head of Legal before setting up a company or establishing formal relationships with any external organisation. Group companies each have their own board, which is responsible for the direction and governance of the company. The Council as shareholder has rights to nominate directors to these boards.

3.52. Building on previous work, NCC has ensured that group companies align their financial closedown with the NCC timetable and has continued work to ensure best practice for governance of companies. In 2019/20 this will include a shareholder board to ensure that the Council's strategic objectives are met

across the group and to support the development of the Group in line with the Council's regulations and ambitions.

- 3.53. The Internal Audit work plan is aligned to the Council Plan and as part of the process to determine the plan Internal Audit consults with Corporate Directors and key stakeholders within the Council and its companies. Internal Audit mainly conforms to the Public Sector Internal Audit Standards. The arrangements for Internal Audit are set out in the Internal Audit Charter and the Constitution.
- 3.54. One Nottingham (ON) has adopted a risk register and its significant partnerships self-assess their governance as part of Partnership Governance Health Checks which are reviewed by the NCC Policy team with support from Internal Audit. The results of this review are reported to the Council's Audit Committee.

### **G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

- 3.55. The Council has a website on which it publishes key information about decisions made and performance, including the results of external assessments. 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.
- 3.56. During 2018-19 the Portfolio Holder for the ON Board has had familiarity with the way ON works having been active in the partnership previously and has taken part in regular briefings with the Chair of the ON Board and Director of ON. A new Portfolio Holder is in place in 2019-20.
- 3.57. The Register of Significant Partnerships, a mechanism of the Partnership Governance Framework, records the status of each significant partnership and is updated annually.
- 3.58. The annual partnership health checks, which are carried out with support from Internal Audit, include a section to enable the significant partnerships to assess the robustness and clarity of their decision making and accountability, including that authority and delegations are set out in governing documents, including
- Who can make what decisions
  - Delegated responsibilities
- 3.59. A quarterly Statutory Officers meeting takes place to review key issues and arrangements. As highlighted in 3.7 above, the Monitoring Officer and Section 151 Officer are in place and fulfil their governance roles.
- 3.60. The Council complies with relevant statutory financial reporting processes and guidance, including production of a published Annual Statement of Accounts.
- 3.61. Annual performance highlights are published in the Nottingham Arrow in the summer with quarterly summaries published on Nottingham Insight. Nottingham Insight website publishes a large quantity of data and documents that are freely available to the public.

3.62. The Council uses a performance management system to collate its performance information and reports are generated by Department and by Portfolio Holder. One-to-one support is given to each Portfolio Holder so that they understand the performance reports and slides given to them. Graphical information provided includes targets and data for past time periods.

### **Constitutional Bodies Dealing with Governance**

3.63. The Overview and Scrutiny Committee takes an overview of key strategic issues relevant to Nottingham, ensuring decision makers are held to account for their decisions and actions. It commissions review panels to deliver its work programme.

3.64. As a new function in 2019, Audit Committee will be able to review, and recommend to Council, proposed non-executive amendments to the Constitution.

3.65. The Standards Committee's main functions concern promoting and maintaining high standards of conduct by Councillors and co-opted members, including in relation to the Code of Conduct, Confidential Reporting Code and issues referred to it by the Monitoring Officer. It can also make recommendations regarding the settlement of cases of maladministration.

### **Audit Committee**

3.66. The Audit Committee regularly updates its programme of work in accordance with its terms of reference. It complies with CiPFA guidance on the role of Audit Committees. It monitors and approves arrangements for Internal Audit and Risk Management

3.67. The Audit Committee also receives a summary of external sources of assurance in the Internal Audit Annual Report, and also receives information about departmental arrangements for assurance, risk management, key systems, governance audits, companies, partnerships, departmental audits and fraud.

3.68. A regular programme of work is carried out by Internal Audit, and additional scrutiny committees, external audit and external inspection contribute to compliance with Council policies, procedures, laws and regulations. The Council's arrangements for Internal Audit were externally assessed against Public Sector Internal Audit Standards in 2017 and the next external assessment is due in 2022

## **4. Review of Effectiveness**

### **Review Process**

4.1. 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 significant partnerships and within its group members.

### **Internal Audit**

- 4.2. Internal Audit is an independent, objective assurance and consulting activity aiding the Council in accomplishing its objectives by bringing a systematic, disciplined approach directed to evaluate and improve the Council's control and governance processes. Using information and evidence collected during the year, the Head of Audit & Risk (HoIA) produces an annual audit report and opinion summarising the effectiveness of the governance arrangements in place.
- 4.3. In 2018/19, the HoIA maintained processes complying with the governance requirements set down in the CIPFA Statement on the role of the Head of Internal Audit. The service met the requirements of the Account and Audit Regulations 2015 and associated regulations. An independent review in 2017 confirmed the service mostly conformed to the detailed principles contained in the Public Sector Internal Audit Standards (PSIAS). An annual self-assessment process operates to maintain and improve compliance with PSIAS and compliance has been strengthened in 2018/19.
- 4.4. The HoIA reports to Corporate Directors and stakeholders who are responsible for ensuring that proper standards of internal control operate within their areas of responsibility. Internal Audit has reviewed the controls and given an opinion in respect of the systems and processes found in place. The 2018/19 Audit Plan, as agreed by the Audit Committee and Corporate Directors and key stakeholders, was completed in accordance with the professional standards. The HoIA has also overseen those policies and procedures in place addressing the risk of fraud and irregularity, and is of the opinion that they align with best practice as described in the CIPFA Code of Practice for managing the risk of fraud and corruption. The HoIA has continued to develop the use of a corporate team to strengthen the counter fraud function.

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

- 4.5. The mandatory Public Sector Internal Audit Standards require the HoIA to give an opinion and report to support the City Council's Annual Governance Statement. Corporate Directors are responsible for ensuring that proper standards of internal control operate within their directorates. IA reviews these controls and gives an opinion in respect of the systems and processes put in place. The audit work concludes with a report detailing the findings and giving an overall level of assurance.
- 4.6. The IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee. The 2018/19 Audit Plan has been completed in accordance with the PSIAS and other professional standards applicable to the service. The IA service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and its partners, where appropriate. The service has operated within professional standards as set out in PSIAS.
- 4.7. Planned work has been supplemented by ad hoc reviews in respect of irregularities and other work commissioned by Corporate Directors or the

partners of the City Council and the work undertaken by external review agencies. Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Further, each quarter a list of reports has been sent to the Committee for consideration.

- 4.8. Throughout 2018/19, the HoIA has continuously reviewed the significant challenges and risks associated with the Council's operations and has allocated the necessary resources, via the Internal Audit Plan, to form his opinion on the Council's governance arrangements. In forming his opinion, the HoIA has reviewed all the IA reports issued in 2018/19, which has included ICT work, and he has drawn upon available external sources of assurance from independent review bodies and internal assurance mechanisms to help him identify and assess the key control risks to the Council's objectives. Other sources of assurance has included the AGS Statement, the Ombudsman Report, KPMG the Council's external auditor, and the partnership health check review. External assurance sources such as OFSTED, and the Care Quality Commission have been reviewed, and where necessary further information has been sought, in order to assess these assurances.
- 4.9. The HoIA has concluded that although no systems of control can provide absolute assurance, nor can IA give that assurance, he is satisfied that, on the basis of the audit work undertaken during the 2018/19 financial year, there have been no significant issues (as defined in the CIPFA Code of Practice) reported by IA. Furthermore, on the basis of the audit work undertaken during the 2018/19 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a significant level of assurance can be given that internal control systems are operating effectively within the Council, its significant partners and associated groups.
- 4.10. However, it is clear from the last 3 years' budget outturns that the financial control framework, whilst it remains robust, is under stress. IA will prioritise additional activity in 2019-20 to identify issues within financial control to assist management in maintaining the effectiveness of the framework. As might be expected in an era of frequent change, reorganisations and cuts, internal audits have highlighted system weaknesses in some areas and compliance issues. IA will aim to review key areas of compliance during 2019-20.

### **Other Assurance Activities**

- 4.11. Corporate Directors and statutory officers have provided an assurance statement supporting the AGS for 2018/19. These statements have been supplemented by assurance gathered from key colleagues responsible for Internal Audit, Risk, Human Resources, significant partnerships and group members, and have also been informed by independent external reviews, including those carried out by the external auditor. The assurance is based around questionnaires developed from the CIPFA/SOLACE Framework for Corporate Governance.
- 4.12. In summary, the Council has reviewed the effectiveness of its governance framework, including key bodies responsible for the governance environment and systems of internal control, and those of group companies where the activities are significant. A comprehensive approach has been taken to considering and obtaining assurance from many different sources. Subject to

the additional work required to respond to the external auditor's report on the Council's SOA (as set out below), as a result of the review of the effectiveness of the governance framework, the arrangements continue to be regarded as fit for purpose and in accordance with the approved governance framework. The areas already addressed, and those to be specifically addressed with new actions planned, are outlined below.

## **External Audit**

4.13. The external auditor Grant Thornton has not yet completed its audit and VfM conclusion and consequently not yet issued its final Audit Findings Report (ISA 260). Once this report is issued it will be reviewed for its impact on the AGS and a revised AGS will be issued and presented to the next available Audit Committee.

## **5. Significant Issues**

5.1. This part of the AGS report reflects the position 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 reported, the Council has used CIPFA guidance on the factors involved. These factors are summarised 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 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.

5.2. Based on the definition there are no issues identified as significant for 2018/19

## **6. Issues Worth Noting and Actions Taken**

6.1. Issues worthy of note are issues that are not categorised as significant but which require attention to ensure continuous improvement of the system of internal control. New or outstanding issues are as follows:

### **EMSS**

6.2. The Partners (Nottingham City Council and Leicestershire County Council) created 'East Midlands Shared Services' (EMSS) to deliver back office services in 2011 and invested in Oracle e-business suite (EBS) as the enabling technology platform for both EMSS and the Partner's retained corporate

functions. The Partners make use of a wholly owned shared service centre, EMSS, which provides Finance, Procurement, HR and payroll services.

6.3. The Council has a positive relationship with EMSS and continues to work with them to identify system and process efficiencies.

#### 6.4. [Fit for the Future](#)

6.5. 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.

6.6. 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.

6.7. 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](#)

6.8. The Council, in line with all other local authorities across the country, is continuing to operate in a challenging financial environment of reduced levels of Government funding with the full consequences of Brexit yet unknown. In the Autumn Budget published on 29th October 2018 there were no significant measures to address the rising demand and funding gaps for Adult Social Care and Children's Services.

- 6.9. Revenue Support Grant (RSG) as a proportion of the Council's total revenue funding has been significantly reduced and will continue to do so. The RSG is profiled to fall from £126.8m in 2013/14 to £25.3m in 2019/20.
- 6.10. Alongside this reduction in grant income, Nottingham has seen increased demand for a number of services, primarily Adult Social Care and Children in Care. These increasing care pressures and continuing funding cuts will have a significant impact on the Council's ability to fund other local services. It is expected that this continuing trend will mean that local taxpayers will increasingly fund local services as Government funding continues to fall.
- 6.11. In order to respond to the funding cuts and manage the increasing pressures the construction of the Medium Term Financial Plan (MTFP) has followed the following principles:
- Take account of the Council's priorities within the Council Plan 2015-2019 agreed by Council on 9 November 2015.
  - Address demographic and service pressures.
  - 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.
  - Minimise the impact of service reductions and changes on vulnerable citizens by protecting frontline services.
  - Pursue commercialisation opportunities to generate income for the Council.
- 6.12. The Council remains committed to tackling crime and anti-social behaviour, keeping Nottingham city clean, protecting children, supporting vulnerable elderly people and tackling homelessness.
- 6.13. In response to the current financial climate, the Council continues to work with council networks including the Local Government Association and the Special Interest Group of Municipal Authorities (SIGOMA) to campaign for a fairer funding settlement from central government for cities like Nottingham and other core cities.

### Addressing Risk and Future Challenges

#### **Three-Year Medium Term Outlook**

- 6.14. Given the challenging environment that the Council continues to operate in, the budget assumptions are subject to ongoing review in light of changing circumstances.
- 6.15. These issues have been brought together to produce a 3 year Medium Financial Outlook (MTFO) that is summarised in the table below. This confirms the need for on-going significant cost reductions in the short to medium term of £27.731m in 2020/21 and £45.009m in 2021/22. Particular issues are as follows.

#### **Funding Cuts**

- 6.16. The MTFP was updated in February 2019 and reflects the fact that despite reducing government funding, the Council expects demand for services to increase, particularly those which support children and the older population.

#### **National Non-Domestic Rates (NNDR)**

6.17. Localisation of NNDR has significant risks for the Council. Under the retention scheme, there are risks in calculating the share of the yield due to the level of unknowns including:

- The number of successful rating appeals that could be made in the year.
- The number of bankruptcies and business going into administration.
- The number of empty and new properties etc.

6.18. In mitigation, the Council works with Analyse LOCAL, which is a system developed to help local authorities to make sound and prudent estimates of its business rate income for the year ahead. It uses a wide range of historic rating information to provide the most reliable base possible on which to base decisions.

### **Brexit**

6.19. There is a high level of uncertainty about the implications of leaving the European Union. Nottingham has benefitted from European funding in the past and it is unclear whether or what other similar sources of funds will be available. The arrangements for what deal the UK will leave with is still as yet undecided but our assumption at the current time is that there will be no significant impairment on the value of the Council's assets. This will be reviewed once a course of action has been determined.

### **Commercial Income**

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

### **General Data Protection Regulation (GDPR)**

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

### **Universal Credit**

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

### **Housing Revenue Account – HRA**

6.23. The HRA is balanced in the medium term but there is a long-term gap on capital investment requirement. Following the tragic events at Grenfell, the Council has approved new fire safety works in high rise blocks. We are waiting confirmation from central government to provide funding for this work.

6.24. 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 final year the Council has had to reduce rents. There is uncertainty over future rent policies

after the four year period. As mentioned above, HRA rents are potentially subject to greater costs due to the implementation of Universal Credit.

#### Group Governance Arrangements

6.25. In July 2018 KPMG reported to NCC that "The Authority has been progressing its overarching group governance processes to ensure that these are fit for purpose given the continued growth of the group."

6.26. During 2018-19 the council has

- Set out a best practice framework for governance of its companies and its shareholder responsibilities
- Prepared terms of reference for councillor and officer bodies to direct, monitor and control the group
- Set out the information requirements of these bodies
- Identified resources and training requirements to support group governance.
- Drafted shareholder agreements

6.27. Two Shareholder Board meetings have been held to date in 2019-20 and the framework for the Companies and Commercial Committee is in place in readiness for the newly elected council.

6.28. A significant amount of work still needs to be undertaken in 2019-20 and a work programme has been developed for a shareholder client function to support the work of the Shareholder Board. The shareholder client function is likely to be established during autumn 2019.

#### Capital and Capitalisation

6.29. In July 2018 KPMG reported to NCC that

- "The Authority should develop and appropriately approve a capital investment strategy document as soon as possible, given the growth of its investment property portfolio and associated borrowing costs." – This has been developed and approved during 2018-19
- "The Authority should:
  - review its process for capturing and accounting for capital accruals, to ensure costs are capitalised in the correct period, notably in regards to internally delivered schemes; and
  - review how it calculates its capitalised project management costs, notably the 8% add-on cost; and – review the basis of the "surplus recovery fee" capitalised cost for internally managed capital projects and why it is appropriate to capitalise this cost."
- For 2018-19 a review of the mechanism for internal charging to the capital programme has been undertaken to ensure compliance with the CIPFA Code of Practice and has resulted in costs being reallocated to revenue and a resulting reduction in capital spend. A further review for continuing arrangements is in progress and is due to be reported shortly.

#### Climate Change Emergency

6.30. UK Parliament has declared a climate and environment emergency. In the light of the Intergovernmental Panel on Climate Change's 2018 Special Report on

“Global Warming of 1.5° C” the Council has heeded the call for urgent action within the next 12 years to avoid a climate crisis and has resolved to become a carbon neutral city by 2028. The Council’s Energy Team are currently developing plans to make that happen. In addition, the Council will need to understand and react to the impacts of climate change on the Council’s operations, strategies and governance.

### Children In Care

- 6.31. We continue to monitor closely the cohort of children who are in care to ensure that we support children to remain within their families wherever possible and that suitable permanent alternatives are identified for those who cannot do so safely. On 16.4.19 there were 619 young people in care, of who 33 were unaccompanied asylum seeking young people and 7 were remanded into our care. Our rate of children in care stood at 91.1 per 10,000 children. In 2017/18 the rate per 10,000 of our statutory neighbour group stood at 94.3 per 10,000.
- 6.32. Children in care numbers reduced in January and February 2019 but then increased again. In order to understand this we undertook a detailed analysis of the circumstances of all children admitted into care between 10.3.19 and 10.4.19. During that period 19 young people came into care, 5 of who were unaccompanied asylum seekers, 5 were remanded and 5 came in following court orders being granted due to concerns regarding abuse and neglect.
- 6.33. At the end of March 2019 there were 447 children in foster care. We have continued to work hard to recruit City Council foster carers. As a consequence we have again increased the proportion of children in City Council foster placements to 51.7%. This also contributed to a small increase in the proportion of children in care placed within 20 miles of Nottingham, which stood at 82.3% at the end of March 2019.
- 6.34. In March 2019 89.6% of care leavers were in suitable accommodation and 53.3% were in Education, Employment or Training (EET). Further action is planned to strengthen our performance in relation to EET.
- 6.35. All of our children’s homes have now been inspected. Three are judged to be outstanding, four are judged to be good. The remaining home that is currently judged to require improvement will be re-inspected shortly.

### Workplace Parking Levy (WPL)

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

### Information & Communications Technology

#### **Increase In Targeted Threats**

- 6.37. During 2018/19 we continue to see a large number of sophisticated and often targeted attacks. This is in keeping with the broader picture across local and national government. One attack attempting to gain financial benefit through the proposed change to bank account details was partly processed but fortunately

stopped. (A similar attack at Pathe News was successful and they lost 19 euros as a result.) <https://www.helpnetsecurity.com/2018/11/14/pathe-bec-scam/>

6.38. We continue to be successful in preventing / detecting issues to date, but the elevated threat level continues.

6.39. We are currently pursuing three areas to help improve operational security, including:

- The implementation of a new Web Application Firewall (WAF) to help prevent attacks similar to those identified against our network in Autumn 2018 (a variant of which was successful in York City) <https://www.bbc.co.uk/news/uk-england-york-north-yorkshire-46275368>
- We have implemented an additional tier of mail filtering and other sundry protections around specific services.
- IT Security training has been updated and is being actively promoted

### **Security Accreditation and Best Practice**

6.40. In early 2019 NCC was successful in securing the Cyber Security Essentials Plus accreditation, this is in addition to remaining accredited to the Health and central government security standards, (HSCN and PSN). Whilst elective, this is a helpful check and demonstration of good practice in our approach to operational information security.

### Information Governance

6.41. An Information Compliance Board (ICB) has been established to ensure that privacy is embedded into the heart of the Council and to ensure that data protection compliance is appropriately monitored.

6.42. The Senior Information Risk Owner (SIRO) chairs the ICB and the SIRO has 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. Information compliance activities include Data Protection, Records Management and Freedom of Information requests.

6.43. Performance associated with requests under Freedom of Information and Environmental Information Regulations continue to remain above the recently increased statutory target of 90%. There are still challenges associated with managing and processing personal information requests under the General Data Protection Regulation 2106/679 and the Data Protection Act (DPA) 2018 and performance has currently dropped below new statutory expectations of 100% compliance. Steps have been taken to address this issue with a view to achieving the standard as soon as possible.

6.44. 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.

- 6.45. We are now a year on from the imposition of the new GDPR legislation. 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. A GDPR project manager is helping to monitor compliance with the GDPR and is assisting the Data Protection Officer with the GDPR project plan and the Information Assurance Framework. Mandatory GDPR training has now been embedded into the organisation as has refresher training on an annual basis. The data flow mapping exercise is nearly complete for the authority. An Annual Assurance report has been produced by Information Compliance and Information Technology for the Audit Committee.

#### Robin Hood Energy

- 6.46. 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

- 6.47. The company performed more strongly than forecast in 2018/19 with additional management resource delivering improved operational stability and financial performance.
- 6.48. EE is now able to issue Renewable Obligation Certificates (ROCs) for power generated through low carbon sources to secure new income for the company.
- 6.49. A number of network legacy repairs have been identified through thermal imaging drone survey work and investment in improving network quality remains a key priority for district heating longevity. Condition surveys of operating plant at the heat station also identify significant investment need or replacement, co-dependent upon securing a steam source when current arrangements expire.
- 6.50. Long term financial planning remains the biggest issue and risk, with proposals being brought forward during 2019 to address this. Affordability of the proposals will need to address the roles and responsibilities of shareholder and company in determining the investment required.

**7. Conclusion**

- 7.1. The Council has reviewed the effectiveness of its governance framework including the system of internal control as outlined above and considers it fit for purpose.
- 7.2. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed: .....  
Leader of the Council

Signed: .....  
Chief Executive