North Tyneside Council
Report to Audit Committee
Date: 25 May 2016

Report from Service:	Finance	
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Wards affected:	All	

PART 1

1.1   Purpose:

1.1.1   The Annual Governance Statement (AGS) explains how the Authority delivers good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015 which require the Authority to publish an AGS.

1.1.2   The purpose of this report is to advise the Audit Committee of the outcome of the review of the Authority's systems of internal control as presented in the AGS (Appendix A). The review will assist the Audit Committee in considering the effectiveness of the Authority's arrangements for the governance of its affairs, including arrangements for management of risk and systems for internal control.

1.2   Recommendation(s):

1.2.1   It is recommended that the:

(a)   Audit Committee note the outcome of the review of the Authority's system of internal control;

(b)   Audit Committee consider the draft AGS and approve that it accompanies the Statement of Accounts for 2015/16; and

(c)   Audit Committee note the actions proposed in the AGS relating to any governance issues identified and make suggestions about including additional items if considered necessary.

1.3   Forward plan:

1.3.1   This report is included within the annual workplan for the Audit Committee.

1.4   Council plan and policy framework:

1.4.1   The AGS covers all the service responsibilities as identified within the Council Plan.

1.5   Information:

1.5.1   Regulation 6(1) of the Accounts and Audit Regulations 2015 requires audited bodies to conduct a review at least once a year of the effectiveness of its internal controls and produce an AGS.

1.5.2   Good governance is fundamental to the proper running of the Authority. It enables an Authority to pursue its vision effectively as well as underpinning that vision with control and management of risk. The arrangements in place must be proportionate to the risks and are acknowledged as being the responsibility of each authority in its area of operation.

1.5.3   The process of preparing the AGS should add value to the effectiveness of the corporate governance and internal control framework.

1.5.4   The AGS has been compiled using a governance framework produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The framework is based on six core principles that feed into the AGS – a summary of these are shown in Section 3 of the AGS together with examples of the evidence supporting the principles in practice within the Authority. The AGS is attached as **Appendix A.**

1.5.5   **Appendix B** shows the Corporate Assurance Statement which outlines in full the six core principles together with the underlying principles supporting them. The Chief Executive, Deputy Chief Executive, Director of Public Health and each of the Heads of Service have been involved in populating this Statement with the evidence supporting how the principles are met within the Authority.

1.5.6   **Appendix C** outlines the key documents/functions that have been reviewed as part of the compilation of the AGS together with an overview of the process.

1.5.7   Section 5 of the AGS outlines the outcome of the review of the effectiveness of internal control and identifies areas that have been highlighted as requiring continuous monitoring to ensure that they do not become significant governance issues in the future. These are set out in the Table below together with details on the controls currently in place to manage these areas:

Potential Governance Issue	Current Controls
Housing Revenue Account (HRA) - there is a risk that the Authority will be unable to protect its housing asset and services to tenants as a consequence of reduced income to the HRA. Government policy on Welfare Reform is resulting in a number of direct challenges to rent collection; the Spare Room Subsidy and the Benefit Cap have already had an impact. Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the Housing & Planning Bill, reducing social housing rents by 1% each year for the next 4	• Budget Setting Process - this will incorporate the review of the existing HRA business plan to reflect the changes. • Redesign of Housing Management Structure - reduce the resource requirement for managing the service. • Kier NT Review - working with Kier NT to identify where savings can be made. • Revised 30 year Capital

Potential Governance Issue	Current Controls
years, mean there will be less income and that income will be harder to collect.	Investment Plan - the cost and quantity of work within the 30 year Investment Plan has been revised to help mitigate the impact of changes. It takes into consideration the 1% reduction and was approved by Cabinet on 14 January 2016.
Creating a Brighter Future Programme (CBF) has been rolled out across the Authority and represents a new plan for delivery in addition to major culture change and new ways of working. To enable the objectives of the Programme to be met it is important that the current monitoring processes that are in place will enable robust financial and service challenges to continue during the year. There is a risk that if the CBF programme is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand on Council services within reducing resources.	• Governance Framework - there are monthly Programme Board meetings via Senior Leadership Team (SLT). This helps to ensure that there is visibility and accountability. It also enables reporting of progress against the plans. Additionally the Enabling Project Board has been established, this and meetings for the Redesign Board are being programmed and will oversee the delivery of CBF and TOM (Target Operating Model). • Regular updates reported to Lead Member Briefings. This ensures that Cabinet Members are kept informed of progress and of any issues. • CBF Programme risk register. Highlights and reports key risks attached to the strategic aims of the CBF programme to the CBF Board enabling informed decisions to be made.
Section 75 Agreement - the Authority has a s75 Agreement in place with North Tyneside Clinical Commissioning Group (CCG) which sets out a comprehensive set of financial and performance metrics which the Better Care Fund (BCF) Partnership Board uses to monitor the implementation of BCF schemes, including the risk of overspends. The NHS in totality is under financial pressure and the CCG has a forecast deficit of £19.0m in 2015/16 which could have financial implications for the Authority's revenue budget in the current and future years.	• Established governance arrangements for the Better Care Fund. Financial and performance information will be monitored and any variation will be easily identified. • Progress updates reported to Lead Member Briefings. This will ensure that Cabinet Members are informed of progress and any issues. • Section 75 Agreement has been established. This establishes the

Potential Governance Issue	Current Controls
The CCG has a financial recovery plan in place based on the delivery of QIPP (Quality, Innovation, Productivity and Prevention) programmes, managing demand, whole system change and commissioning external support to challenge and test the plans in place and the ability to deliver those plans. The delivery of this plan could have implications for both Adults and Children's Social Care services and could impact on the assumptions included in the Authority's current and future year's budget and financial plans with regard to financial transactions with the CCG.	legal framework to manage the progress. • Turnaround Board. The Turnaround Board consists of the Chief Executive and representatives from CCG, it has been established to manage the CCG deficit and look at finances across Health and Social Care.
Business Rates - the Chancellor of the Exchequer recently announced that local authorities will be able to keep all the business rates that they collect from local businesses. The original business rate retention scheme gave local authorities the potential to retain 50% of business rate income and up to half of any growth in business rates revenue from new assessments added to the rating list. The remainder was returned to central government and redistributed. Full retention will potentially give local authorities greater ability to plan for the long term, more financial independence and an increased incentive to generate growth as 100% of business rates will be retained. There are a number of risks with the new proposals which the Authority will need to address. For example, a lack of business growth or the shutting of a business will impact on the Authority's revenues. The Authority will also have to bear 100% of business rates appeals, this was previously 50%. The current business rates system has a safety net in place for those local authorities that see a reduction in business rate income by more than 7.5%. It is anticipated that this will stay in place, but this hasn't been confirmed. The Authority will need to assess and plan for this potential risk. In addition resource implications will need to be taken into account to manage the change	• Highly effective engagement with businesses. Ensures effective high level relationship between Council, key strategic companies and developers; facilitating timely support and the opportunity to mitigate threats. • National working groups established – Systems Design Working Group and Responsibilities Working Group. The Systems Design Working Group is a forum through which local government representatives and other interested bodies will provide information and expert advice to support the Local Government Association and Department of Communities and Local Government in advising Ministers on setting up the most appropriate system to deliver 100% business rates retention. The Responsibilities Working Group will develop options for the devolution of responsibilities and funding. • Regional (former Association of North East Council's area) Task & Finish Group, Business Rates Retention, set-up to influence central government direction on the proposed Business Rates Retention system.

Potential Governance Issue	Current Controls
in the administration of business rates.	
Information Governance - there is a risk in relation to information governance that unless there are robust policies and systems in place and implemented there is a possibility that sensitive data may be lost. Some information held by the Authority is extremely sensitive in nature which requires robust policies and systems to be in place to ensure that it is as secure as possible, and that staff are fully aware of the procedures that they need to follow when dealing with such information. If the Authority fails to have robust policies in place there is a risk that the Data Protection Act could be breached leading to fines and compensation claims.	• Senior Information Risk Officer (SIRO). This ensures that there is someone within the Council that has ultimate responsibility for ensuring that information and attached risks are managed effectively. • Information Security Group. The membership of the group is from services across the Council. Its remit is to support the SIRO and inform policy and procedures to manage information. • Information Governance Improvement Plan. This helps ensure that policies and procedures are adequate, up to date and implemented by staff. This is an ongoing process which will be supported by the implementation of the Electronic Document Record Management System (EDRMS). The end result will be improved practices across the Council. The plan is currently in the process of being reviewed and strengthened. This will also include reference to new ICT collaboration tooling and how it will work with EDRMS. • Strategic Information Governance Officer. Providing a corporate approach working with day to day managers of the information governance processes and procedures, ensuring a training plan is in place and implemented.
Partnerships - the Authority needs to continue to embed and review governance arrangements that are in place in respect of all partnerships to ensure required services are delivered satisfactorily, whilst also achieving and sustaining value for money. In addition the Authority needs to ensure that boundaries and responsibilities remain clear and are robustly managed, recognising that	• The Governance Structure. The governance structure has been operating since 1 November 2012. It helps ensure that the governance to manage the partnerships is in place, i.e. Strategic Partnering Boards, Operational Partnering Boards, Senior Client Groups and a Commercial Group.

Potential Governance Issue	Current Controls
operations and staffing in both partner organisations and the Authority change over time.	• Delivery of Key Performance Indicators (KPIs) has been agreed. KPIs are reviewed, updated and agreed on an annual basis. They form the basis of performance management against the contract, ensuring that the Council's ambitions and objectives are being delivered.
The White Paper '**Education Excellence Everywhere**' published in March 2016 signalled a fundamental change in local authority relationship with schools, requiring most schools to form or join multi-academy trusts by 2022. However, Government has now abandoned plans for new laws to make all schools convert into an academy. It will be replaced by legislation enabling the Government to force schools to convert when local authorities have consistently poor results across their schools. The Government will also step in when there are so few schools under local authority control that a council can "no longer support its remaining schools".	• Despite this change the Authority will continue to keep a watching brief on how Government deal with the question of academies.

1.5.8 The risk management update included in the agenda for this meeting sets out the current Corporate Risks being managed and monitored, and for the purpose of completeness should be considered alongside this report. This process evidences an important part of the authority's governance framework.

The report presented to the 25 November 2015 Audit Committee contained an update on the potential governance issues that were identified in the 2014/15 Annual Governance Statement. The need to continue to embed and review governance arrangements that are in place in respect of all partnerships to ensure required services are delivered satisfactorily, whilst also achieving and sustaining value for money has again been identified as an area that should be monitored due to the level of risk involved and has accordingly been included in the current AGS.

1.5.9 The AGS is a draft based on the information and evidence available as at the date of this meeting. If there are any issues raised by the external auditor during the audit of the 2015/16 financial statements that require the AGS to be revised prior to approval by Council at the end of September 2016, a revised AGS will be presented to the Audit Committee for its consideration.

1.6 Decision options:

The options available are:

(a) To accept the recommendations made in section 1.2.1; or
(b) To reject the recommendations made within this report.

1.7 Reasons for recommended option:

The production of the Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2015.

1.8 Appendices:

Appendix A – Annual Governance Statement
Appendix B – Assurance Statement on Governance Arrangements
Appendix C – Annual Governance Statement Framework

1.9 Contact officers:

Janice Gillespie – Head of Finance - Tel: 643 5701

1.10 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a)   Annual Governance Statement 2015 (P)
(b)   CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' June 2007 (P)
(c)   Application Note to Delivering Good Governance in Local Government: A Framework March 2010 (CIPFA/SOLACE)
(d)   The Role of the Chief Finance Officer (CIPFA)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Governance Statement is produced annually in accordance with regulation 6(1) of the Accounts and Audit Regulations 2015.

2.3 Consultation / community engagement

The Chief Executive, Deputy Chief Executive, Director of Public Health and all Heads of Service have been consulted. There will be a series of Member briefings during the summer on the Financial Statements before full Council approve the Annual Governance Statement in September 2016.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

The annual review of the systems of internal control will cover all controls, including the arrangements in place for Risk Management within the Authority.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.