

North Tyneside Council Report to Audit Committee Date: 24 May 2017

ITEM 5

Title: Annual Governance
Statement 2016/17

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)(a) 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 2016/17; 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)(a) 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).
- 1.5.5 CIPFA originally published ‘Delivering Good Governance in Local Government: Framework’ in association with Solace in 2007. CIPFA and Solace have subsequently reviewed the Framework to ensure that it remains fit for purpose and a revised edition was published in spring 2016. The new ‘Delivering Good Governance in Local Government: Framework’ builds on the existing framework and details the principles that should underpin the governance of a local authority. The framework is based on seven 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**.
- 1.5.6 The Chief Executive, Deputy Chief Executive, Director of Public Health and each of the Heads of Service have been involved in populating the AGS with the evidence supporting how the principles are met within the Authority.
- 1.5.7 **Appendix B** outlines the key documents/functions that have been reviewed as part of the compilation of the AGS together with an overview of the process.
- 1.5.8 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
<p>Housing Revenue Account (HRA) – as a result of reduced income to the HRA there is a risk that the Authority will be unable to protect its housing asset and services to tenants.</p> <p>Government policy on Welfare Reform has resulted in a number of direct challenges to rent collection, for example the Spare Room Subsidy and the Benefit Cap.</p>	<ul style="list-style-type: none"> • Any impact from changes in Government legislation is reflected in the HRA plan and approved by Cabinet as part of the annual review of the HRA. • Revised 30 year Capital Investment Plan is in place.

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<p>Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes contained in the Housing & Planning Act 2016; reducing social housing rents by 1% each year for the next 4 years, mean that there will be less income and that income will be harder to collect.</p> <p>The Government's White Paper, Fixing Our Broken Housing Market, was published on 7 February 2017. The White Paper sets out the government's plans to boost the supply of new homes in England. As part of the White Paper, it seeks views on changes to planning policy and legislation in relation to planning for housing, sustainable development and the environment.</p>	<ul style="list-style-type: none"> • Kier North Tyneside Review, a Cabinet sub-group has been established to consider options post 2019 in respect of the contract. • The Authority has representation on the DCLG (Department for Communities & Local Government) and the CIPFA HRA working groups. Specific issues can be raised through these forums and the Authority can also comment and influence changes on HRA regulations. • The Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. • Self service/agile working, through the implementation of self service and agile working overall costs should be reduced. • A watching brief will be kept on the implications of the White Paper and representations to Government will be made as appropriate.
<p>Creating a Brighter Future Programme (CBF) – there is a risk that if the CBF programme/Target Operating Model (TOM) are not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand on Council services within reducing resources.</p> <p>To enable the objectives of the CBF to be met it is important that the current monitoring processes that are in place will enable robust financial and service challenges to continue throughout the year.</p> <p>There is a risk that budget monitoring does not fully align with the CBF and TOM.</p>	<ul style="list-style-type: none"> • Governance framework – there are monthly Programme Board meetings via Senior Leadership Team (SLT). This ensures that there is visibility and accountability. • Regular updates are reported to Lead Member Briefings. This informs Cabinet Members of progress and of any issues. • The TOM addresses the financial challenge whilst enabling the Authority to deliver Our North Tyneside Plan and CBF priorities. A number of business cases have been put in place to support the

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	<p>delivery of the TOM and reduction of cost.</p> <ul style="list-style-type: none"> • A refreshed Joint Strategic Needs Assessment (JSNA) is in place which provides a new approach to needs assessment to provide an improved foundation for the CBF. • The CBF Programme Risk Register highlights and reports key risks attached to the strategic aims of the CBF programme. The CBF Board receive this report enabling informed decisions to be made. • The development and acceptance of the Efficiency Plan will secure the Revenue Support Grant (RSG) (subject to Central Government change) which will give a degree of certainty for the next 3 years.
<p>Impact of the Northumberland, Tyne & Wear and North Durham (NTWND) Sustainability & Transformation Plan (STP) - the purpose of the STP in the NHS is to ensure that health and care services are based upon the needs of local populations in order to support the successful implementation of the NHS 5 Year Forward View (5YFV). STPs are intended to bring together key partners across Clinical Commissioning Groups (CCGs), Foundation Trusts, local authorities and other health and care service providers organised as STP 'footprints'. A footprint is the geographical area in which people and organisations are working together to develop plans to transform and sustain the delivery of health care services.</p> <p>North Tyneside CCG is required to develop a 2 year operational plan consistent with the local STP and the 5YFV, delivering core access and quality standards for patients and restoring and maintaining financial balance.</p> <p>The NTWND STP identifies a number of key transformational areas (improve health inequalities, improve the quality and experience of care, out of hospital collaboration, optimal use of the acute sector, transforming mental health</p>	<ul style="list-style-type: none"> • The Chief Executive has written to NHS England on behalf of the chief executives of all NECA (North East Combined Authorities) local authorities about the process of developing the STP. • The Head of Health, Education, Care and Safeguarding and the Chair of the Health and Wellbeing Board have been authorised by Cabinet to seek more detail on the plans for the NHS and to monitor the progress of the STP in North Tyneside. • A report was taken to Council on 23 March 2017 'Response to the Council motion on reduction of NHS services & implications of the STP in North Tyneside'. The report was agreed by Council and details the review of the STP and service reductions that has been undertaken.

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<p>and closing the financial gap). The financial gap could be as large as £641m by 2021 across Northumberland, Tyne & Wear and North Durham.</p> <p>NHS Planning Guidance 2016 requires CCGs to produce an Operational Plan 2016/17 to 2018/19 to cover the first 2 years implementation of the STP.</p> <p>Concern has been expressed about the extent to which the Authority has been a true partner in the development of the STP. In particular, the concern centres around the lack of engagement with local authorities and understanding the financial implications of the plans upon the ability of the Authority to deliver services to residents, such as, adult social care, children's services and public health.</p>	
<p>Business Rates - the Chancellor of the Exchequer announced in October 2015 that local authorities will be able to keep all the business rates that they collect from local businesses.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The Authority will also have to bear 100% of business rates appeals, this was previously 50%.</p> <p>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</p>	<ul style="list-style-type: none"> • A Task & Finish Group, Business Rates Retention, has been set-up to influence central government direction on the proposed Business Rates Retention system. This has involved the establishment by the Local Government Association (LGA) and DCLG of an officer-level steering group and 3 working groups. The working groups meet regularly and cover service responsibilities, needs & redistribution, system design, accounting & accountability and business interests. • Presentations have been received from DCLG both to the region and jointly to the Local Government Association. • The Authority considers and responds to consultations issued on the proposed changes to business rates. • Regular meetings are held with the Valuation Office. These meetings highlight any significant changes to the ratings list and the

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<p>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 in the administration of business rates.</p>	<p>implications of the 2017 revaluations.</p> <ul style="list-style-type: none"> • Weekly monitoring of the Valuation Office appeals data is carried out to gain an understanding of the Authority's position. • DCLG issued further consultation on 100% Business Rates Retention in February 2017, which the Authority will respond to. This links in with Governments Fair Funding Review and devolution of further responsibilities. • Proposals to change risk on appeals, Central Government bearing cost, with top slice to each authority's funding. • Valuation Office Agency have introduced new appeals process from 1 April 2017 called check, challenge, appeal which introduces additional processes to reduce the number of appeals made.
<p>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.</p> <p>From May 2018 the General Data Protection Regulation (GDPR) will come into force. The GDPR sets out a number of new requirements for organisations. The new regulation places greater emphasis on accountability, for example</p>	<ul style="list-style-type: none"> • Compulsory e-learning in respect of information sharing and information governance awareness training. It is mandatory for all staff handling information to undertake e-learning. The completion date for this training was 31 March 2017. • Strategic Information Management Forum. This is an assurance group which consists of Heads of Service and Senior Managers. Their role is to help to ensure that the Authority's information governance, IT systems and processes are fit for purpose. The Group enables Senior Managers to ensure that consistency is applied to the approach to information

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<p>informing residents in more detail about how the Authority will handle their data, shorter timescales for dealing with subject access requests and breaches, increased fines for non-compliance, data protection impact assessment (DPIA) must be carried out prior to commencing new processing activities, considering data privacy and protection at the start of a project (also known as Privacy by Design).</p>	<p>governance and sign off of referrals to the Information Commissioner's Office.</p> <ul style="list-style-type: none"> • Information Management Strategy, this sets out how the Authority will manage its information going forward. • Information governance standards for the sharing of information with partners. Data sharing was included in the contractual arrangements with both the Business and Technical Partners. An additional data sharing agreement has been produced for the business partner to reflect ICT services. It sets out procedures that staff need to follow in order to obtain access to information systems. • 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. • In preparation for the introduction of the GDPR requirements the Authority is reviewing its approach to governance and how it manages Data Protection as a corporate issue.
<p>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.</p> <p>In addition the Authority needs to ensure that boundaries and responsibilities remain clear and are robustly managed, recognising that operations and staffing in both partner organisations and the Authority change over time.</p>	<ul style="list-style-type: none"> • The Governance structure that is in place ensures that the governance to manage partnerships is in place, e.g. Strategic Partnering Boards, Operational Partnering Boards, Senior Client Groups and a Commercial Group. • The performance payment mechanism ensures that the correct payments are made in relation to the partners.

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	<ul style="list-style-type: none"> • Alignment of CBF with ENGIE strategic plans will ensure all parties are aware of how the business partnership is working towards developing the Authority's priorities and ENGIE business plan. • ENGIE and Capita have been asked to contribute to the Authority's CBF/TOM objectives. The aim is to ensure that partnership delivery plans are in line with policy objectives. This is reflected in their annual service plans. • The Capita Deed of Variation has now been agreed and implemented.
<p>National Education Policy – there is a risk that national policy direction will disrupt the partnership between schools and the Authority.</p> <p>A new funding formula proposed for 2018, together with the Fostering & Adoption Act passed in 2016, could result in schools judged as inadequate or coasting converting to academy status.</p>	<ul style="list-style-type: none"> • Information has been sought from the Department for Education on how the Authority should respond to national changes and contribute even more to North East education. The Cabinet Member for Children, Young People and Learning has written to the Secretary of State for Education seeking clarification on a number of points relating to high performing local authority areas. This has been reinforced by the Mayor who has asked both MPs to do the same. • A review of 0-19 Services is due to take place. The redesign of the 0-19 Services (including Prevention and Early Help) will enable the Authority to deliver appropriate services, resulting in the needs of our vulnerable children and families being met.
<p>Exit from the European Union – there is a risk that the Authority may be placed at a disadvantage following the decision to leave the European Union (EU) in both financial and economic growth terms.</p> <p>The decision to leave the EU has resulted in a</p>	<ul style="list-style-type: none"> • The potential impact from leaving the EU has been included in the Authority's Financial Strategy. This will help to ensure that potential areas of impact following EU exit will be highlighted and included (where relevant) in

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<p>number of uncertainties including whether central Government will fill the gap left by European Funding on a like for like basis. There is also the potential impact on businesses within North Tyneside which will vary depending on their reliance on Europe as a market and their sensitivity to fluctuations in monetary value. The full extent of the impact will not be clear until the precise trade terms are known which will apply once the UK formally leaves the EU.</p> <p>Opportunities will also arise covering: An opportunity for partnership between businesses and the Council to work together more effectively to stimulate and support economic growth opportunities; An opportunity for a comprehensive approach to establish the River Tyne as a hub for offshore and renewable energy investment; and There is an opportunity for local authorities to work more collaboratively with wider business partners through the Combined Authority and the North East Local Enterprise Partnership (NELEP).</p>	<p>budget planning.</p> <ul style="list-style-type: none"> • Keep a watching brief, this will ensure that any changes whether to funding or legislation will be identified and acted upon. • The Authority is a member of various regional groups. This will help the Authority to keep up-to-date on progress and have the opportunity to exert influence via these groups, for example the Local Government Association. • Explore alternative funding opportunities. This will enable the Authority where possible to secure future funding that is not reliant on the EU.

1.5.9 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 30 November 2016 Audit Committee contained an update on the potential governance issues that were identified in the 2015/16 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. In addition the HRA, CBF, Business Rates and Information Governance previously included in the AGS will continue to be monitored throughout the year.

1.5.10 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 2016/17 financial statements that require the AGS to be revised prior to approval by Council at the end of September 2017, 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 2016/17

Appendix B – Annual Governance Statement Framework

1.9 Contact officers:

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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 2016
- (b) 'Delivering Good Governance in Local Government' (CIPFA) 2016 Edition
- (c) 'Delivering Good Governance in Local Government Guidance Notes for English Authorities' (CIPFA) 2016 Edition
- (d) 'The Role of the Chief Finance Officer' (CIPFA) 2016

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)(a) 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 2017.

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.