

12 June 2019

Agenda Item: 9

**REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &  
IMPROVEMENT****NATIONAL AUDIT OFFICE REVIEW OF LOCAL AUTHORITY GOVERNANCE****Purpose of the Report**

1. To bring to Committee's attention the findings of a National Audit Office (NAO) review of governance in local authorities, and to consider any implications for the local governance arrangements at Nottinghamshire County Council.

**Information**

2. The objective of this NAO study was to examine whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending delivers value for money and that authorities are financially sustainable. There were three specific strands to the review:
  - a) the pressures acting on the local governance system and the consequent challenges for governance
  - b) the extent to which local governance arrangements function as intended
  - c) whether the Ministry of Housing, Communities & Local Government (MHCLG) is fulfilling its responsibilities as steward of the system.
3. The report sets out a diagrammatic representation of the local government framework. This is reproduced at Appendix 1 as an aid to understanding the scope of the review and the relative responsibilities of local authorities within it.
4. The following table sets out the key findings and recommendations from the review in relation to the parts of the review directly relevant to local authorities' controls (at a. and b. above in paragraph 2). Alongside each finding is an assessment of the implications for the governance arrangements at this Council.

NAO Finding	Implications for Nottinghamshire
<b>a) Challenges to local government arrangements</b>	
Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures	The NAO report highlights the combination of a real-terms reduction in spending power for local government (from government grant and council tax) between 2010/11 – 2017/18 of 28.6% and increasing demand in key services over the same period, such as a 15.1% increase in the number of

NAO Finding	Implications for Nottinghamshire
	<p>looked after children. These pressures continue to be challenges for this Council.</p> <p>Like other local authorities, this Council has a wide-ranging transformation programme in place and it has been successful in driving through savings whilst also protecting the delivery of essential services.</p> <p>The Council has not exposed itself to higher levels of risk by engaging in commercial investments, which the NAO identified as a strategy in some Councils.</p> <p>The evidence from the assurance mapping pilot is that the Council is taking a prudent and pro-active approach to managing the financial challenges it faces.</p>
Local checks and balances need to be effective in a more complex and less well-resourced context for local decision-making.	The Council has robust governance arrangements in place. The Annual Governance Statement for 2018/19 confirms that the Local Code of Corporate Governance is operating effectively
Effective governance arrangements are an important aspect of ensuring financial control at a time of financial pressure	Assurance mapping confirmed the Council has strong arrangements in place both for future planning and for in-year budgetary control. In April 2019, the Chief Executive wrote to all budget holders in the Council to set out a Spending Control Framework for the new financial year. A focus on the effectiveness of contract management across the Council will also be a priority for 2019/20.
<b>b) The operation of local governance arrangements</b>	
While section 151 officers as a whole are positive about their ability to deliver their role, those that do not report directly to their chief executive are less positive than those that do.	The s151 officer at this Council is the Service Director – Finance, Infrastructure & Improvement and he reports directly to the Chief Executive. He is positive that he is able to deliver the role effectively.
<p>A survey of external auditors raised concerns about the effectiveness of a range of internal checks and balances, such as:</p> <ul style="list-style-type: none"> <li>- the audit committee</li> <li>- internal audit</li> <li>- risk management, scrutiny, challenge and debate</li> <li>- whistleblowing policy</li> </ul>	<p>The Governance &amp; Ethics Committee has self-assessed its effectiveness in delivering its role as the Council's audit committee. This confirmed effective arrangements are in place, whilst also identifying some opportunities for improvement.</p> <p>The Internal Audit Service successfully completed its external assessment in March 2018.</p> <p>The Council's Committee system ensures significant opportunity for strong scrutiny, challenge and debate for all decision-making.</p> <p>The Council maintains its whistleblowing policy and reports annually on its operation.</p>
There is a sizeable group of local authorities with multiple issues with	No matters of concern have been highlighted by the external auditor at this Council.

NAO Finding	Implications for Nottinghamshire
these internal checks and balances.	
Auditors concluded that in 2017-18 nearly one in five single tier and county councils did not have adequate arrangements in place to secure value for money	The Council received a clear VFM assessment as part of the external auditor's work on the 2017/18 final accounts.
Over half of the section 151 officers from single tier and county councils responding to our survey indicated that they wanted changes to be made to external audit.	NCC contributed its comments to the recent NAO consultation paper on the code of practice for external audit, and this included the opinions of the Service Director – Finance, Infrastructure & Improvement.

5. The NAO review makes a number of recommendations, all of which are targeted at action to be taken by the MHCLG. Many of these are concerned with its own operations and how it leads the sector, but some relate to its role in working with local authorities to improve controls at local level. Key among these recommendations are for the MHCLG to work with local authorities to assess possible responses to the following:
- the status of s151 officers and the efficacy of their statutory reporting arrangements;
  - the effectiveness of audit committees, and how to increase the use of independent members;
  - the effectiveness of overview and scrutiny functions and ways to enhance their impact; and
  - the sustainability and future role of internal audit.
6. It is suggested there are no matters of significance identified by the self-assessment on which additional actions are required at this time. The Council will remain ready to respond to subsequent initiatives by MCHLG in response to the findings of this NAO report. Any such initiatives will be incorporated in future updates to Committee on best practice for effective governance.

### Other Options Considered

7. None.

### Reason for Recommendation

8. To enable the Committee to assess whether any changes to the Council's local governance framework should be recommended in light of the NAO findings.

### Statutory and Policy Implications

9. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below.

Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION**

- 1) That Committee assesses the implications for Nottinghamshire County Council arising from the NAO report and determines whether there are any changes that should be made to this Council's governance framework.

**Nigel Stevenson**

**Service Director for Finance, Infrastructure & Improvement**

**For any enquiries about this report please contact:**

Rob Disney

Group Manager – Assurance

### **Constitutional Comments (KK – 29/05/2019)**

The proposal in this report is within the remit of the Governance & Ethics Committee

### **Financial Comments (CSB – 29/05/2019)**

There are no specific financial implications directly arising from this report.

### **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

### **Electoral Division(s) and Member(s) Affected**

- All