

Audit Committee

Item No.....

Report title:	Annual Statement of Accounts and Annual Governance Statement 2017-18
Date of meeting:	31 July 2018
Responsible Chief Officer:	Executive Director of Finance and Commercial Services
Strategic impact This report introduces the Statement of Accounts and Annual Governance Statement of Norfolk County Council for 2017-18.	

Executive summary

This report introduces Council's Annual Governance Statement and the Statement of Accounts of Norfolk County Council for 2017-18 which has been subject to external audit by Ernst & Young. The Executive Director of Finance and Commercial Services anticipates that the Council will receive an unqualified audit opinion.

The Statement of Accounts is presented in the format required for statutory external reporting requirements.

The report summarises changes to the Accounts as a result of the implementation of revised financial reporting requirements, and summarises any material changes which have been made as a result of audit and officer review during the audit period. The final position for all departments as reported to Policy and Resources Committee on 4 June 2018 was a net underspend of £0.235m which was transferred to General Balances.

The Council has net liabilities of £50.3m at 31 March 2018. The net liability is due primarily to increased net pension liabilities included in "Other Long Term Liabilities" and does not affect the general fund underspend.

The attached report (Appendix 1) contains:

- A narrative summary of the financial statements and
- An introduction to the proposed Annual Governance Statement 2017-18, which provides assurance that the organisation's governance framework, including the system of internal control and internal audit, is adequate and effective for the purpose of the relevant regulations

Recommendations

The Audit Committee is requested to:

- note that, following annual reviews, the systems of internal control and internal audit are considered adequate and effective;
- consider and approve the Annual Governance Statement (Annex 1);
- consider and approve the Council's 2017-18 Statement of Accounts (Annex 2).

1. Introduction

This report summarises the Statement of Accounts of Norfolk County Council and associated Annual Governance Statement for 2017-18.

2. Evidence

The following appendices are attached:

- Appendix 1: a narrative summary of the accounts and AGS
 - Annex 1: the draft Annual Governance Statement for 2017-18
 - Annex 2: the latest draft 2017-18 Statement of Accounts.

3. Financial Implications

The final position for all departments as reported to Policy and Resources Committee on 4 June 2018 was a net underspend of £0.235m. This has not changed as a result of the preparation of the Statement of Accounts. The underspend has been transferred to general balances and is reflected in the financial statements.

4. Issues, risks and innovation

4.1 There are no specific issues, risks or innovations to report.

5. Background

5.1 The attached Statement of Accounts is presented in the format required for statutory external reporting requirements.

Officer Contact

If you have any questions about the matters contained in this paper please get in touch with:

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Narrative Summary of Annual Statement of Accounts and Annual Governance Statement 2017-18

1. Introduction

- 1.1 As part of the formal process of closing the County Council's 2017-18 accounts, Members are required to consider and approve the Annual Governance Statement attached as Annex 1, and to approve the Statement of Accounts ("the accounts"), attached as Annex 2, for publication on 31 July. This process of approval is included within the Committee's terms of reference.
- 1.2 The Council's external auditor, Ernst & Young, has examined the accounts. Their examination is now substantially complete and there is a separate report from them on this agenda.
- 1.3 This report summarises the contents of the Annual Governance Statement, and of the accounts, and highlights any significant issues arising from the audit or as a result of officer review during the audit period.

2. Background

- 2.1 The Local Government England and Wales Accounts and Audit Regulations 2015 issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations include the requirement for the formal approval, by a full Committee, of the Council's Statement of Accounts.
- 2.2 The Executive Director of Finance and Commercial Services is satisfied that the Statement of Accounts has been prepared in accordance with both the current Code of Practice on Local Authority Accounting in Great Britain ("the Code") and the Service Reporting Code of Practice for Local Authorities ("SeRCOP") supported by International Financial Reporting Standards ("IFRS") and other statutory guidance. The Statement of Accounts is required to present a true and fair view of the County Council's financial position at 31 March 2018 and also the income and expenditure for the financial year.
- 2.3 The Executive Director of Finance and Commercial Services reported the final revenue and capital expenditure positions for 2017-18 and the provisions and reserves held at 31 March 2018 to Policy and Resources Committee on 4 June 2018.
- 2.4 The net underspend of £0.235m reported to Policy and Resources Committee on 4 June 2018 has been transferred to General Balances.

Details of movements on this balance are shown in paragraph 5.8 below.

- 2.5 A public inspection period of 30 working days commencing 31 May was publicised on the Norfolk County Council web site in accordance with relevant regulations. One question from a journalist with a question confirming the levels of reserves and general balances was answered using information contained in the draft Statement of Accounts. No other enquiries from the public were received during this period.
- 2.6 The draft 2017-18 Statement of Accounts, dated 30 May, has been publicly available on the Council's web site since the start of the public inspection period.
- 2.7 Ernst & Young have performed a detailed examination of the accounts, and will present their Audit Results Report to this meeting. They will only be able to formally conclude the audit, and issue their report and certificate once they have received a copy of the Statement of Accounts as approved by this Committee.
- 2.8 Any further audit amendments to these accounts between the date of this report being made public and the meeting will be notified to members of the Audit Committee at the meeting.
- 2.9 The Accounts and Audit Regulations require that the 2017-18 Statement of Accounts must be published by 31 July.
- 2.10 This is the first year that the Accounts and Audit Regulations have required the 2017-18 draft Statement of Accounts to be published by 31 May, and the audited accounts by 31 July. Equivalent dates in previous years have been 30 June and 30 September.

3. Annual Governance Statement

- 3.1 Regulations require that:
- the Council must conduct a review at least once a year of the effectiveness of its system of internal control, including internal audit;
 - findings of this review should be considered by the Council;
 - the Council must approve an Annual Governance Statement; and
 - the Annual Governance Statement must accompany the Statement of Accounts.
- 3.2 For Norfolk County Council the Audit Committee undertakes these duties on behalf of the Council.
- 3.3 The Executive Director of Finance and Commercial Services reviews the effectiveness of the system of internal control throughout the year and reports annually to the Audit Committee. The Executive Director of Finance and Commercial Services reported to the Audit Committee on 19 April 2018 that in his opinion the effectiveness of risk management and internal control for 2017-18 is 'Acceptable' and therefore considered 'Sound'.
- 3.4 The Accounts and Audit Regulations require the preparation of an Annual Governance Statement, signed by the Leader and the Managing Director. Guidance for the preparation, review and reporting of the Annual Governance Statement has been issued by CIPFA /SoLACE and has been used in its preparation.
- 3.5 The draft Annual Governance Statement ("AGS") has been published along with the draft Statement of Accounts on the Council's website. The final AGS will be published alongside the audited Statement of Accounts.
- 3.6 The AGS confirms that, during the 2017-18 financial year, and up to the date the accounts are published, overall Corporate Governance arrangements and internal controls in the Council were in place and effective in terms of business as well as financial risk. It also confirms that areas where controls need to be developed or improved are known about and are being actioned.
- 3.7 A small number of changes have been made to the statement since it was published and these are highlighted in yellow on pages 2, 3 and 8 of the Annual Governance Statement attached as Annex 1. The final statement will be duly signed by the Managing Director and the new Leader of the Council.

4. Changes to the Presentation of the Accounts

- 4.1 The Council continues to prepare its Statement of Accounts under International Financial Reporting Standards as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.
- 4.2 There have been no significant changes to accounting policies since 2016-17. Proposals which would have had a material impact on the valuation of the Highways Network Asset have been abandoned for the foreseeable future.
- 4.3 In accordance with changes to the CIPFA Code in 2016-17, note 2 “Expenditure and Funding Analysis” analyses amounts charged to the general fund for each of the Council’s Directorates. The required format does not give a specific reconciliation to the net cost of services and the reported underspend. This reconciliation is as follows:

		£m
Net transfers from earmarked reserves –	opening	75.187
(note 10)	closing	(76.159)
Movement in reserves		(0.972)
Underspend reported to P&R 4 June 2018		(0.235)
Net (Surplus)/Deficit (note 2, Expenditure and Funding Analysis)		(1.207)

5. Statement of Accounts – Content

- 5.1 The accounts are set out in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18. There have been no significant changes to generally recognised accounting practices affecting the Council since 2016-17.
- 5.2 The Statement of Accounts includes the Movement in Reserves Statement (“MIRS”), the Comprehensive Income and Expenditure Statement (“CIES”), a Balance Sheet and Cash Flow Statement. In addition to the Norfolk County Council single entity accounts, the Statement of Accounts includes a summary of the Fire fighters’ pension scheme, Norfolk County Council’s Group Accounts, and the Norfolk Pension Fund Accounts.

The Group Accounts incorporate the financial results, where material, of companies controlled by the Council including the Norse Group and Independence Matters CIC.

Explanatory Foreword

- 5.3 The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters in the accounts.

Statement of Responsibilities

- 5.4 This statement sets out the respective responsibilities of the Council and the Executive Director of Finance and Commercial Services in relation to the production of the final accounts.

Independent Auditors' Report

- 5.5 This report will set out the External Auditor's opinion in respect of the Statement of Accounts. Based on an assumption that the Audit Committee will agree to approve the Statement of Accounts, the Council expects to receive unqualified audit opinions in respect of the Council's accounts and the pension fund accounts.

Movement in Reserves Statement

- 5.6 This statement shows the movement during the year of all the Council/Group's useable and unusable reserves and shows the aggregate change in its net worth.
- 5.7 As well as any surplus or deficit on the provision of services, the statement includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

- 5.8 Movements on the General Fund Balance are as follows:

	£m
Actual General Balances at 1 April 2017	19.301
Net underspend 2017-18	0.235
General Balances at 31 March 2018	19.536

Comprehensive Income and Expenditure Statement

- 5.9 The Comprehensive Income and Expenditure Statement shows the resources generated and consumed by the Council, including income and expenditure associated with each major service heading.

Balance Sheet

- 5.10 The Balance Sheet statement sets out the financial position of the Council at 31 March 2018. The statement shows the balances and reserves at the Council's disposal, its long-term borrowing, and the fixed assets and net current assets employed. The principal movements on the balance sheet are described below.
- 5.11 The net book value of Property Plant and Equipment (note 14) is broadly in line with 2017-18. Reductions in land and building are due mainly to schools converting to academy status. Decreases in assets under construction have been more than offset by increases in infrastructure assets as significant proportions of the Norwich Northern Distributor were complete and in use at 31 March 2018. There has

been one disposal within Heritage Assets (note 15) following the surrender of a lease on one windmill.

- 5.12 The value of investment properties (note 16), which are those held to generate an income, such as the Council's share of the Airport Industrial Estate, has decreased by £0.3m due mainly to the disposal of one property jointly owned with Norwich City Council.
- 5.13 Long term investments are unchanged since last year. The total of Cash and Cash Equivalents (note 19), has decreased by £37m due to a decrease in the Council's overall cash balances following significant expenditure on the NDR, and also to a greater proportion of cash held on term deposits. Short term investments have decreased by £32m, also related to the general decrease in working capital over 2017-18 as grants and borrowing received in 2016-17 was spent in 2017-18.
- 5.14 The levels of short term debtors (note 18) and long-term debtors have seen modest increases but remain broadly in line with 2016-17. The increase in long term debtors is consistent with an additional £3.5m capital loan made to the Norse Group.
- 5.15 Amounts classed as Asset Held for Sale (note 20) have increased since 2016-17. Property valued at just under £1m was sold during the year and has been replaced with properties valued at £3.3m actively awaiting sale at the end of the year in accordance with a policy of generating capital receipts and reducing property maintenance and management costs.
- 5.16 Total long-term liabilities shown on the face of the balance sheet increased are broadly unchanged at £1.8bn, with a net increase of £22m in long term PWLB borrowing partly offset by reductions in pensions and other long-term liabilities.

The reported Council's net pension liabilities (Local Government Pension Scheme and Fire-Fighters Pension Scheme) decreased by £8m to £1,185m (note 39, net liability arising from defined benefit obligation). The Council's net Pension Liability is one of the largest individual figures in the accounts. Over the past few years the liability has been volatile, with annual increases and decreases of over £200m, but it has been little changed over 2017-18.

The IAS19 reporting standard requires the Fund Actuary to set the Discount Rate (the rate used to value liabilities) by reference to market bond yields. All things being equal, as the discount rate fall, the value attributable to liabilities will increase. As shown in the table below, the assumed rate for discounting scheme liabilities has seen little change, and therefore the balance sheet position for a typical employer is likely to be similar at 31 March 2018 compared to the previous year.

Period ended	31 March 2017 % p.a.	31 March 2018 % p.a.
Pension increase rate	2.4%	2.4%
Salary increase rate	2.7%	2.7%
Discount rate	2.6%	2.7%

The IAS19 report used for statutory accounting purposes is prepared using a different set of assumptions to the Funding calculation used in the Triennial Valuation to determine employer contribution rates, and to which a stabilisation mechanism is applied to smooth volatility in the discount rate over the funding period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The Council's overall reported Net Assets are negative at -£50.3m. This figure to a large extent, depends on two unrelated factors, one being the valuation of local authority assets, most of which cannot be sold or exchanged for value, with the other being the net pension liabilities.

The overall reported negative net assets figure has no direct impact on the Council's general fund.

5.17 Cash Flow Statement

The cash flow statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows any increases or decreases in cash and cash equivalents as noted in paragraph 5.13 above.

5.18 Notes to the Core Financial Statements

The first note to the Accounts is the Statement of Accounting Policies which summarises the accounting rules and conventions that have been used in preparing the accounts.

5.19 The Code requires that some specific notes have to be included in the Statement of Accounts, e.g. disclosure of related party transactions. In addition, other notes may be added in order that a reader of the accounts has sufficient information to have a good understanding of the Council's activities.

5.20 The "Adjustments between accounting basis and funding basis under legislation" (note 9) reconciles the total comprehensive income and expenditure recognised in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

5.21 The adjustments in note 9 are applied to the Movement in Reserves Statement. The Statement of Accounts General Fund Balance of

£95.695m is the sum of £19.536m General Balances figure reported to 4 June 2018 Policy and Resources Committee, plus the earmarked reserves of £76.159m listed in note 10.

Fire Fighters' Pension Fund

- 5.22 This statement summarises the pension arrangements for the fire fighters' pension scheme.

Group Accounts

- 5.23 As well as publishing its accounts as a single entity, Norfolk County Council must also publish group accounts which incorporate the financial results, where material, of companies and other entities controlled by the Council – primarily the Norse Group of companies and Independence Matters CIC.
- 5.24 The group accounts are shown as a separate section in the statement of accounts.
- 5.25 The group accounts comprise group movement in reserves, group comprehensive income and expenditure, the group balance sheet and a group cash flow statement. It also includes notes to the group accounts where these differ or include information in addition to the single entity accounts.

Pension Fund Accounts

- 5.26 The detailed Pension Fund Accounts which are incorporated into this Statement of Accounts have been considered by the 26 June 2018 Pensions Committee which resolved:
1. That the Pensions Committee notes the 2017-18 Annual Report and Accounts of the Norfolk Pension Fund (at Appendix A to the report).
 2. Notes the Ernst and Young ISA260 report and endorses the letter of representation (which due to the faster close timeline were laid on the table) and ask that the Chair of the Pension Committee and Executive Director of Finance and Commercial Services sign the letter on behalf of the Pension Fund.
 3. That the Pension Fund financial statements are presented to the Audit Committee at their meeting on 31 July 2018 for approval as part of the Norfolk County Council Statement of Accounts.
 4. That the Annual Report and Accounts be published on the Fund's website prior to 1 December 2018 as required by the LGPS regulations.

6. Accounting adjustments, corrections and changes since the 30 May draft

- 6.1 Since the publication of the draft accounts on 30 May, and during the audit, officers and Ernst & Young have identified a number of adjustments to correct non-material errors or to enhance disclosures within the financial statements and associated notes.
- 6.2 With the agreement of the auditors, adjustments and corrections have been made where appropriate, and a number of disclosures added or enhanced, for example where information was not available until after the publication of the May draft accounts.

Material/significant adjustments to the core statements since the 30 May draft accounts

- 6.3 **Pension liability – information not available at time of draft**
Following additional work by the Pension Fund scheme actuary, the Council's Local Government Pension Scheme net liability has reduced by £16.546m. This has:
- a) reduced Other Long Term Liabilities in the Balance sheet and
 - b) reduced Other Comprehensive Income and Expenditure in the CIES.

Accounting implications of change in control of new school

The value of a trust school being constructed by the local authority was included as a property asset in the draft accounts, on the basis that the majority of the building work was complete at the year-end but it had not been formally transferred to the Trust. However, the completed element of the new building was in use by the Trust since February 2018. Following discussion with the auditors, the Council agreed that the cost of the occupied area should be treated as an accounting disposal, with the unfinished element remaining in Assets Under Construction.

The impact of this change has been:

- a) to decrease by £11.815m the year-end value of Property, Plant and Equipment on the balance sheet and
- b) to increase other operating expenditure in the CIES by £11.815m.

Impact on the general fund and useable reserves.

The changes above have had a material impact on the statutory accounts, but have no impact on the Council's general fund or useable reserves.

Other Significant adjustments and error corrections

- 6.4 **Re-classification of unspent contributions from conditional to unconditional**
The year-end analysis of unspent developer contributions classified as conditional were found to contain capital contributions which should have been classified as unconditional, on the basis that they will not have to be re-paid. The impact has been a reduction of £2.234m in Short Term Creditors in the balance sheet, balanced by an equivalent increase in

Useable reserves (Capital Grants Unapplied Account). The balance sheet net assets total was not affected.

Other changes

As a result of audit questions and internal work, a number of other corrections have been made to address errors and inconsistencies, and to improve presentation of the single entity, pensions and group accounts. The more significant changes are listed in the Audit Results Report elsewhere on this agenda.

A paragraph has been added to the contingent liabilities note setting out uncertainties around the final value of land compensation following the completion of the NDR. This is due to on-going negotiations with a large number of landowners.

All adjustments requested by the auditors have been made, and no further changes are anticipated. However, in the course of their work the auditors have identified items in relation to, for example, the group accounts and PFI disclosures which do not warrant amending for 2017-18 but which may be adjusted in 2018-19 as necessary.

Overall impact of adjustments since the May draft

- 6.5 The net liabilities of the Council are £50.333m, as shown in both the Balance Sheet and the Movement in Reserves Statement. This is a reduction of £6.965m since the draft dated 30 May 2018.

The changes above have had no impact on the Council's general fund or useable reserves.

Impact of faster closing

- 6.6 Faster closing has had a significant impact on the speed at which the draft and final accounts have had to be prepared, which has been a challenge for both officers and auditors.

A dry-run in 2016-17 proved invaluable. However, the earlier deadline has inevitably resulted in a greater use of estimates (for example where pension liability final calculations were not available) and less time to conclude on the proper treatment of unusual transactions (for example the Trust school classification).

Overall, the number of material adjustments made to the draft accounts has been small. To maintain this performance, officers will aim to discuss with auditors prior to future year ends: 1) all potentially difficult accounting judgements, and 2) how late changes to material estimates relating to, for example, the pension liability and PPE values, can be best resolved within the context of the tighter deadlines.

7. Developments in local authority accounting

7.1 Faster closing

The Accounts and Audit Regulations 2015 have significantly affect the speed at which local authority financial statements are produced, published and audited. This year's 2017-18 draft accounts were published by 31 May (previously 30 June) with the audit and final accounts deadline now 31 July (previously 30 September).

7.2 IFRS 16 leases

IFRS 16 is a financial reporting standard which specifies how an entity will recognise, measure, present and disclose leases in its accounts. The standard will introduce major changes to the way operating leases are accounted for, including lease arrangements "embedded" in service contracts. Council officers have started evaluating the impact of these changes, and the information gathering which will be necessary to implement the new standard from April 2019.

7.3 IFRS 9 financial instruments

IFRS 9 is a new standard which covers the classification and measurement of financial assets and liabilities, replacing IAS 39. One relevant change, after 1 April 2018, is that gains or losses on "available-for-sale" assets will need to be reflected as surpluses or deficits in the general fund. At present, the Council's only "available-for-sale" assets are the Council's investments in Norwich Airport and associated companies (£1.2m). This change would also affect investments such as pooled property funds and certificates of deposit, but these do not currently form part of the Council's investment strategy.

7.4 External Audit Appointment

On 15 August 2017 the PSAA wrote to the Council to consult on the appointment of Ernst & Young LLP as external auditors. The Executive Director of Finance and Commercial Services responded positively.

On 18 December 2018 the PSAA confirmed the appointment of Ernst & Young LLP to audit the accounts of Norfolk County Council for five years, for the accounts from 2018/19 to 2022/23. This appointment was made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the PSAA Board at its meeting on 14 December 2017.

Annex 1 - Annual Governance Statement 2017-18

DRAFT Annual Governance Statement for Norfolk County Council 2017-18

1. Introduction

1.1. The Accounts and Audit (England) Regulations 2015 require that:

- The Council must conduct a review at least once a year of the effectiveness of its system of internal control,
- Findings of this review should be considered by the Council,
- The Council must approve an Annual Governance Statement; and
- The Annual Governance Statement must accompany the Statement of Accounts.

For Norfolk County Council (the Council) the Audit Committee undertakes these duties on behalf of the Council.

1.2. The Chief Internal Auditor reviews the effectiveness of the system of internal control throughout the year and reports annually to the Audit Committee. The Chief Internal Auditor reported to the Audit Committee on 19 April 2018 that, in his opinion, the system of internal control, including the arrangements for the management of risk during 2017-18, was acceptable and therefore considered sound. The Committee agreed with this opinion. This statement will be approved, along with the Statement of Accounts, at the 31 July 2018 meeting of the Audit Committee.

1.3. As part of producing this statement, Executive Directors have completed and signed an Annual Positive Assurance Statement and completed a supporting departmental assurance table.

2. Scope of responsibility

2.1. The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded and 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 it exercises its functions having regard to economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

2.2. The Council has approved and adopted a Code of Corporate Governance consistent with the principles of the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014). The Code was approved by the Policy and Resources Committee on 26 March 2018. If you require any further information regarding this statement please contact Mr. Simon George, Executive Director of Finance and Commercial Services, Norfolk County Council, County Hall, Martineau Lane, NR1 2DW.

2.3. Through the application of the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, the Annual Governance Statement must include reference to

controls where significant activities take place through a group entity. This includes Companies that the Council owns or part owns.

- 2.4. This statement explains how the Council has complied with the Code of Corporate Governance and meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2015, in relation to the publication of an Annual Governance Statement.
- 2.5. The Council administers the Norfolk Pension Fund and the Norfolk Firefighters Pension Fund. The governance arrangements are statutorily prescribed. The Council complies with these requirements. For further details, please consult the [Norfolk Pension Fund Governance Statement 2017](#).
- 2.6. The Council hosts or is represented in several Joint Committees, which are:
- Norfolk Records Committee,
 - Norfolk Joint Museum Committee,
 - Eastern Shires Purchasing Organisation (ESPO),
 - Norwich Highways Agency Committee,
 - Eastern Inshore Fisheries and Conservation Authority
 - Norfolk Parking Partnership Joint Committee
 - Norfolk and Waveney Joint Health Scrutiny Committee.
 - Road Casualty Reduction Partnership Board
- 2.7. The Council has **ten subsidiary companies and one legislator company**, detailed below:
- Active Companies:
- The largest wholly owned company by the Council is the Norse Group Limited. It is the parent company of NPS Property Consultants Limited, Norse Transport, Norse Eastern Limited, Norse Commercial Services Ltd and Norse Care Ltd, plus their subsidiaries. These companies are referred to throughout this statement as NORSE. The governance arrangements for NORSE are included in the body of this report. Where there are unique arrangements these appear at the end of each section and where the arrangements are specific to NORSE, they appear in a separate section. For more information regarding NORSE and its services, please refer to its website at <http://www.norsegroup.co.uk>
 - Hethel Innovation Ltd, is wholly owned by the Council, see link for further information at <http://hethelinnovation.com/>.
 - Independence Matters is a Community Interest Company (CIC) which started trading 1 November 2013. The Council owns 49% of the shares for the initial contract period of three years which was extended for two years. For more information regarding Independence Matters please refer to its website at <http://independencematters.org.uk/>.
 - Norfolk Safety Community Interest Company (CIC) operates in partnership with Norfolk Fire and Rescue Service, and provides a range of risk management, training

and development and other services to public bodies, third sector organisations and businesses. For more information please refer to website <http://norfolksafety.org/>

- Legislator 1656 Limited is a holding company which is jointly owned with Norwich City Council and is controlled through each party owning 50% of the voting share capital. The company owns a 4.9% share in Norwich Airport Limited and 100% of Legislator 1657 Limited whose principal activity is the leasing of investment properties.

Non Active companies:

- The Great Yarmouth Development Company, which is jointly owned with Great Yarmouth Borough Council, with each party owning 50%. The company is currently in the process of being closed.
- Norfolk Energy Futures Ltd is wholly owned by the Council. The company is currently in the process of being closed.
- Norfolk Regeneration Company Limited (NRC) is a wholly owned by the Council. It is currently dormant.
- Educator Solutions Ltd, incorporated on 15 April 2016, is a wholly owned by the Council. It is currently dormant.
- Public Law East Limited, incorporated on 13 February 2017, is a wholly owned company. It is currently dormant.
- Repton Property Developments Ltd, incorporated on 27 July 2017, is a wholly owned by the Council.

Where appropriate the wholly owned/partly owned companies have Council Member and/or Officer representation on their boards of directors. An audit has recently been undertaken (and not yet reported) of Norfolk Safety Community Interest Company. All other significant companies have signed an Annual Positive Assurance Statement and completed a supporting assurance table.

2.8. The Council is a partner in three pooled funds, detailed below. There will be a requirement for an additional pooled fund in the future:

- The Norfolk Learning Difficulties Pooled Fund now exists only as a legal entity as part of the arrangements for commissioning Learning Difficulties health services. The Council now receives funding directly from Central Government as part of the formula funding
- Norfolk Pharmaceutical and Medicines Management Pooled Fund. The Council and the Clinical Commissioning Groups (CCG's) entered into an agreement to provide a pharmaceutical and medicines management service in Norfolk. The Council provides financial management for the Pooled Fund
- There is a Better Care Fund pooled arrangement in place, covering the five CCGs in Norfolk. The Better Care Fund (BCF) requires local authorities with responsibility for social services and CCGs to create a pooled commissioning fund for the provision of integrated health and community care services, with a priority purpose of supporting

the integration of health and care. The pooled fund is secured through an agreement under section 75 of the National Health Service Act 2006. The Norfolk and Waveney Chief Officer Group oversees the governance of the pooled fund. The Better Care Fund plan, which sets out how funds are spent, is required to be approved by the Health and Wellbeing Board. The Council administers the pooled funds.

- 2.9 Norfolk County Council has been designated to manage the 2014-2020 France (Channel) England Interreg Va European programme.

Assurances were provided by the UK Government in October 2016 that for projects selected prior to the actual exit date, partners from the UK will have their full funding guaranteed.

The programme is an EU Commission programme funded through the Cohesion Fund and provides up to €223M of grant covering the geographic area of South and East England and Northern France. This will leverage up to a total of €315M of funds (with match funding). The programme budget is agreed by the French and UK Governments. The Cooperation Programme (CP) was approved by both national governments and by the Commission in October 2015. For further information please refer to website <https://interreg5a-fce.eu>

Within the Council, a Project Board has been set up to oversee the management of risks this initiative generates for the authority.

The Audit Authority reports to the Audit Committee on progress made against the strategy and plan. Should significant issues arise and fail to be resolved with regards to the management and control system, these would be reported to the Audit Committee. No such issues were reported in 2017/18.

The programme also has its own governance arrangements involving Member States and EC representatives.

3. The purpose of a governance framework

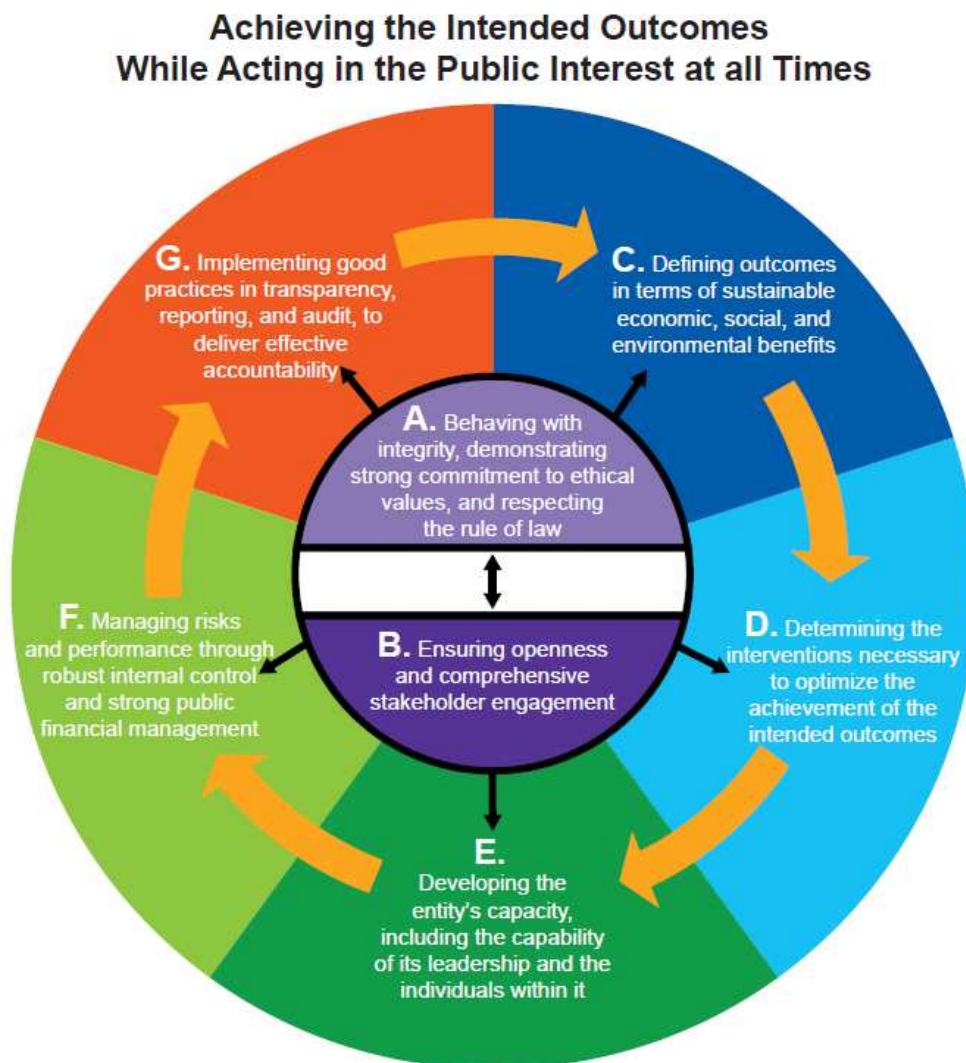
- 3.1. A governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables the County Council to monitor the achievement of its strategic objectives and consider whether they have led to the delivery of appropriate, cost effective services.
- 3.2. The system of internal control is a significant part of that framework designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process to identify and prioritise such risks, it evaluates the likelihood of them being realised and the impact

they would have should they be realised and helps manage them efficiently, effectively and economically.

- 3.3. All wholly owned companies have a system of governance which is the responsibility of their Board of Directors and designed to give the Directors adequate information to review the activities of the Group and review and control the business risks.

4. The Governance Framework

- 4.1. The council achieves good standards of governance by applying the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (The 'International Framework').



- 4.2. This diagram illustrates how the various principles for good governance in the public sector relate to each other. To achieve good governance the Council should achieve their

intended outcomes while acting in the public interest at all times. As overarching requirements for acting in the public interest, principles A and B apply across all other principles (C – G)

- 4.3. The Council's [Code of Corporate Governance](#) details the arrangements in place to comply with each of the principles. The Annual Governance Statement reviews the effectiveness of those arrangements.

5. Effectiveness of the governance framework

- 5.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

That review is informed by:

- The work of the Executive Directors within the County Council who are responsible for the development and maintenance of the governance environment.
- The Statutory roles of the Council's Monitoring Officer and Section 151 Officer
- The signed departmental assurance statements received and signed by Executive Directors
- The Annual Governance Statement working group
- Work performed by Internal Audit
- Comments made by the external auditors and other review agencies and inspectorate
- Systems and controls carried out as outlined in the Code of Corporate Governance.

Responsibility for this annual review has been delegated to the Audit Committee. Overall it is considered the Council's governance arrangements continue to be fit for purpose, in accordance with the governance framework.

- 5.2 The effectiveness of the governance framework can be demonstrated by the following:

	Principles	Comment
A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.	<p>Executive Directors have confirmed services comply with the Council's Constitution, Financial Regulations and key policies and procedures which include for declarations, compliments and complaints and whistleblowing. Relevant topics, for example health and safety, are reported to committees during the year.</p> <p>There are up to date registers of Members interests and register of gifts and hospitality published for each Member on the Norfolk County Council internet.</p> <p>The Standards Committee met twice during 2017-18. The role of the Standards Committee is to promote and</p>

	Principles	Comment
		<p>maintain high standards of conduct by councillors and co-opted members.</p> <p>Progress on the Council's Equality, Diversity and Inclusion objectives 2017-2020 was reported to the Policy and Resources committee in January 2018.</p> <p>An Annual report of the Monitoring Officer will be made to the Audit Committee at the 31 July 2018 meeting. There are no exceptions to report.</p>
B	Ensuring openness and comprehensive stakeholder engagement.	<p>Committees and Full Council have met regularly throughout the year. These are open meetings and the agenda and public reports are available to the public prior to the meetings. There is also provision for the public to ask questions. Decisions taken at these meetings have been recorded in minutes. The agendas, public reports and minutes are available on the Council website, with the exception of certain confidential information.</p> <p>NCC's vision and strategy for 2018-2021 is published on the internet.</p> <p>A Norfolk Strategic Framework has been approved. It includes the shared objectives with Norfolk's Local Planning Authorities (including Norfolk County Council).</p> <p>During the year the Council has engaged with individual citizens and service users effectively. The Council embraced the philosophy "We Asked, You Said, We Did" approach to consultation and promotes material advising the public and other stakeholders of the key findings from consultations and how they have been considered. An example of this was in respect of budget saving proposals.</p> <p>As well as formal consultations the Council runs a variety of events and manage a variety of panels or forums. In doing so, these create opportunities for open dialogue with people who use our services enabling them to feedback their views, interests and concerns relating to the services we offer. Our key events and public forums included a Business Rates Consultation Event, Make it Real Older People's forum, In Care Council, Norfolk Youth Parliament and Residents' panel.</p> <p>There is an agreed Communication Strategy and Media Protocol. Roles and responsibilities for communication should be clear.</p>

	Principles	Comment
C	Defining outcomes in terms of sustainable economic, social and environmental benefits.	<p>The previous County Council Plan 2016-19 had set out the Council's previous strategic ambition, priorities and the areas of the Council's business where it needs to make the fastest improvements to secure Norfolk's long term future. It was refreshed during the year.</p> <p>The vision for Norfolk in 2021 was approved by Full Council on 12 February 2018. This sets out the direction of the Council in the next three years and what it would like to achieve.</p> <p>The 'Vision for Norfolk 2021 Caring for our County' outlines the Council's commitment to:</p> <ul style="list-style-type: none"> - Building communities we can be proud of - Making the most of our beautiful County - Starting a new relationship with Norfolk families - Investing in children and families - Helping our population remain independent, resilient and well - Getting our own house in order. <p>The approach is guided by four key principles:</p> <ul style="list-style-type: none"> - Offering our help early to prevent and reduce demand for specialist services - Joining up our work so that similar activities and services are easily accessible, done well and done once - Being business-like and making best use of digital technology to ensure value for money - Using evidence and data to target our work where it can make the most difference <p>The Council has also identified seven priorities to bring focus and energy to this phase of transformation – under the banner of 'Norfolk Futures'. These priorities are:</p> <ul style="list-style-type: none"> - Safe children and resilient families - Promoting independence for vulnerable adults - Local service strategy - Smarter information and advice - Towards a Norfolk housing strategy - Digital Norfolk - Commercialisation. <p>There is focussed activity on each priority, with County Leadership Team sponsors and Senior Officer Business Leads.</p>

	Principles	Comment
		<p>Each Committee has produced a 3 year plan, setting out how their areas of responsibility will be shaped by the ambition and principles of “Norfolk Futures” and promote the council’s vision. These plans were approved by Service Committees in March 2018. Progress against overall transformation is being monitored by the Policy and Resources Committee.</p>
D	Determining the interventions necessary to optimise the achievement of the intended outcomes.	<p>During the year each Service Committee received performance monitoring reports on the identified key areas (vital signs). These included performance dashboards and a detailed review of those areas not performing as expected. These provided both quantitative and qualitative performance information.</p> <p>In parallel, each Departmental Management Team reviewed performance at least monthly, with challenge provided by the Business Intelligence function.</p> <p>The specific targets included in the County Council Plan 2016-19 are monitored through reports to Service Committees. Where performance is not meeting expectations, the reasons why are discussed and the required action to perform performance is identified. An example of this can be found here on page 91.</p> <p>The vital signs have recently been updated for all departments, to ensure the most important areas are monitored. Each department has produced a Plan on a Page and are being reported to Service Committees. These detail ‘what we’ll do’, ‘how we’ll do it’ and ‘how we’ll know if we’ve made a difference’.</p> <p>External challenge has been provided through benchmarking, inspections and peer reviews. Details of inspections and peer reviews are included in Appendix 1.</p>
E	Developing the entity’s capacity, including the capability of its leadership and the individuals within it.	<p>During the year the County Leadership Team signed off an Organisational Effectiveness Strategy and plan including key priorities on leadership, shared purpose and performance.</p> <p>To embed the refreshed County Plan and strategy, a refreshed performance development framework has been developed and is now being rolled out to all managers in April 2018.</p>

	Principles	Comment
		<p>Refreshed key people measures have been signed off and work has been underway to refresh the Council's values and key leadership attributes for roll-out in April 2018.</p>
F	Managing risks and performance through robust internal control and strong public financial management.	<p>Corporate and departmental risk registers are up to date and are being used by managers as a management tool.</p> <p>Reporting of risk management activity to Members and senior management is embedded; for instance corporate risk registers have been reported quarterly and annually to the Audit Committee and the County Leadership Team. Departmental risk registers have been reported quarterly to the Service Committees. The quality and range of data and information included in these reports has been strengthened to better inform on progress with managing specific risks and give them a better overview of the risk profile of each service. The risk management framework and policy have been updated during the year, as reported in the Annual Risk Management report (page 188).</p> <p>Under the Fire and Rescue Services Act 2004 (The Act), the Council is the statutory Fire and Rescue Authority (FRA). The Act makes it a statutory requirement for the Fire and Rescue Authority to produce an Integrated Risk Management Plan. Norfolk FRA published its Integrated Risk Management Plan (IRMP) for 2016-2020 in February 2016. The latest annual Norfolk FRA Statement of Assurance, covering 2016-17, was approved and published in March 2018.</p> <p>Performance monitoring is reported through to Committees.</p> <p>All the Executive Directors have confirmed approved protocols, signed contracts and effective governance arrangements are either in place or in the process of being put in place for work performed by third parties.</p> <p>Performance of wholly owned companies is monitored by Senior Officers and Members attendance at Board Meetings.</p> <p>The Council has effective overview and scrutiny. Decisions are made by all-party committees with membership reflecting the overall political makeup of the Council. Committees debate, challenge and make decisions. The Member Training Programme ensures</p>

	Principles	Comment
		<p>Members are aware of their responsibilities in decision making. This includes being sufficiently challenging and ensuring they have the appropriate level of support and information to enable them to make an informed decision.</p> <p>The Council has robust internal control:</p> <ul style="list-style-type: none"> • An Annual Internal Audit Report from the Executive Director of Finance and Commercial Services/Chief Internal Auditor was made to the Audit Committee at its 19 April meeting. There were no exceptions to report. • Systems and processes for financial administration, financial control and protection of the Council's resources and assets are in place and these are continually reviewed to ensure they meet the Council's business requirements. These controls are clearly described in the Council's Medium Term Financial Plan agreed by the Council in February 2018. In addition, a Going Concern Statement has been produced to provide additional assurance. • Effective internal control arrangements are in place. These include financial guidance, budgetary systems, monitoring systems, delegation arrangements, accounting procedures, information systems and authorisation and approval processes. • Annual accounts are published on a timely basis. • An effective internal audit function is resourced and maintained. • Risk management arrangements are effective. • An effective Audit Committee is in place. • Measures are in place to prevent, detect and investigate fraud and corruption. • The internal audit team is compliant with the relevant professional standards, namely the United Kingdom Public Sector Internal Audit Standards. From January 2017 these were updated and are now known as the International Standards for the Professional Practice of Internal Auditing. An external review was undertaken by CIPFA in May 2017. • Outstanding corporate high priority audit recommendations are followed up to ensure controls are put in place as soon as possible. A

	Principles	Comment
		<p>summary of the outstanding corporate high priority audit findings is reported to the Audit Committee.</p> <p>Information Asset Owners of key systems provided assurance during a data quality audit that in their opinion controls and processes are robust enough to ensure good quality data. All Executive Directors have confirmed there are processes in place to ensure the quality of data is maintained to enable effective decision making to be made. Action plans are in place following internal audit work on Information Security during the year and has been included as a Corporate Risk (RM003). The Council has had a plan in place for the General Data Protection Regulation (GDPR) preparations which is regularly reviewed by the County Leadership Team.</p> <p>We have strong public financial management. Responsible Budget Officers are responsible for managing their budgets effectively. At the end of every month financial information on expenditure is produced including forecast expenditure and the planned impact on earmarked reserves. Finance Monitoring Reports are discussed at Service Committees.</p>
	<p>Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>	<p>During the year the Council has published information, including reports, in a manner which is accessible to citizens and other stakeholders. The Council complies with the Local Government Transparency Code 2015 by publishing accurate data within appropriate time frames.</p> <p>Reporting on performance, value for money and the stewardship have been included in the Annual Report, Statements of Accounts and Annual Governance Statement.</p> <p>The Audit Committee has considered matters of governance, including internal audit, risk management, anti-fraud and corruption, the annual statement of accounts, treasury management and external audit during 2017/18.</p> <p>An Annual Internal Audit Report from the Executive Director of Finance and Commercial Services/Chief Internal Auditor was made to the Audit Committee at its 19 April. There were no exceptions to report.</p> <p>All Executive Directors have confirmed staff are aware of their responsibility to report upwards any unresolved matters of concern about internal control.</p>

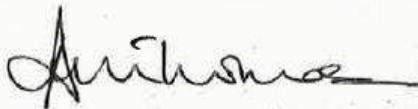
5.3 Wholly owned Companies have completed assurance statements confirming the effectiveness of their governance framework, with the exception of Norfolk Safety Community Interest Company where an audit has been carried out during the year. No concerns have been identified.

6. Review of Effective Action on Significant Governance Issues 2016/17

6.1 There were no significant governance issues reported in 2016-17.

7. Significant Governance Issues

7.1 There are no significant governance issues to report for 2017-18.



Acting Leader – Alison Thomas



Dr Wendy Thomson CBE
Managing Director

Notes:

Note 1: The following senior officers have contributed to drafting this statement

- Managing Director
- Executive Director of Adult Social Services
- Executive Director of Children's Services
- Executive Director of Community and Environmental Services
- Executive Director of Finance and Commercial Services (Section 151 Officer)
- Strategy Director
- Head of Democratic Services
- Head of HR.

Executive Directors who have produced signed Annual Positive Assurance Statements and supporting assurance tables

Executive Director of Community and Environmental Services
Executive Director of Adult Social Services
Executive Director of Finance and Commercial Services
Executive Director of Children's Services
Strategy Director

Appendix 1

External Reviews carried out during the year

	Comment
3	<p>Finance and Commercial Services</p> <ul style="list-style-type: none"> The overall key message in the external auditor's (EY) Annual Audit Letter (available on the Council Finance webpage Statement of Accounts 2016-17) was that an unqualified opinion was issued on the Council's accounts for 2016-17. The County Council was also given an unqualified 'Value for Money' opinion, within the Annual Audit Letter 2016-17. The controls within the payroll function are audited annually by internal audit. <p>HR</p> <ul style="list-style-type: none"> The Health & Safety function is ultimately answerable to the HSE and in the last year we had one investigations by the HSE. The HSE concluded that our systems were satisfactory. There is a third investigation which is ongoing at this point. <p>nplaw</p> <ul style="list-style-type: none"> NpLaw had its external Lexcel (the Law Society's legal practice quality mark for excellence in legal practice management and excellence in client care) assessment in March 2018 and its accreditation as a legal practice was renewed. <p>Children's Services</p> <p>The re-inspection Ofsted report dated January 2018, in respect of children in need of help and protection, children looked after and care leavers, recognised Norfolk County Council had shown a significant increase in the pace of change, with visible and effective interim senior leaders working purposefully to tackle critical weaknesses. The support for children looked after, care leavers and children with a plan for adoption has improved and most receive timely, effective help. However, these services still require improvement to be good. The service provided to children with a plan for adoption is outstanding.</p> <p>Community and Environmental Services (CES)</p> <ul style="list-style-type: none"> An internal audit (resourced by BDO) was carried out on the compliance with NDR Contract Management and an internal audit was completed for the NDR Scheme of Delegation. An acceptable opinion was given for both audits.

	Comment
	<ul style="list-style-type: none"> Norfolk Community Learning Services were shortlisted as one of the six finalists for the most improved Council category, in the Municipal Journal awards 2017. Other accreditation obtained by CES have been appended at Appendix 1.

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Annex 2 – Draft Statement of Accounts 2017-18