Lancashire County Council

Audit and Governance Committee

Monday, 25th January, 2016 at 3.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

Lancashire County Council

12. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

13. Date of Next Meeting

The next meeting of the Committee will be held on Monday 4 April 2016 at 2.00 p.m. at County Hall, Preston.

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 28th September, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	T Martin
C Dereli	A Schofield
G Driver	V Taylor
S Holgate	B Winlow

County Councillors S Holgate and T Martin replaced County Councillors D Clifford and C Pritchard respectively at this meeting.

Officers in attendance

Ian Young – Director of Governance, Finance and Public Services
Abigail Leech – Head of Service Corporate Finance and S.151 Officer
Ruth Lowry – Head of Service Internal Audit
Karen Murray – Director, Grant Thornton
Caroline Stead – Grant Thornton
Mike Jensen – Chief Investment Officer
Chris Mather - Democratic Services Manager

Officers were asked to make the necessary arrangements to webcast future meetings of the Committee.

1. Apologies

None.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 30 June 2015

It was noted that Mike Jensen had attended the last meeting but his name had been omitted from the Minutes.

Resolved: That, subject to the above amendment, the Minutes of the meeting held on 30 June 2015 be confirmed and signed by the Chair.

4. Update on Treasury Management Activity

A presentation was made to the committee by Mike Jensen, chief investment officer, on a review of the county council's treasury management activities during the current financial year to the end of July 2015 and included:

- A review of the economic conditions during 2015/16,
- Borrowing activity,
- Investment activity,
- Actual results measured against 2015/16 Prudential indicators and Treasury Management Indicators.

Officers responded to questions raised by the Members in relation to investment and borrowing activities. It was agreed that further information about the £137m increase in bonds would be circulated to members of the Committee.

Details of the treasury management activities were presented at Appendix 'A'.

Resolved: That the review of treasury management activities for the period 1 April to 31 July 2015 shown at Appendix 'A' to the report now presented, be noted.

5. Updated Annual Governance Statement

Ian Young, Director of Governance, Finance and Public Services, informed the Committee that Abigail Leech, Head of Corporate Finance, had been appointed as the Council's Interim S.151 officer for the purposes of approving the Council's Statement of Accounts. This appointment was necessary due to interim Director of Financial Resources and S.151 officer being off work due to ill health. It was also reported that the Chief Executive had subsequently appointed Neil Kissock as the acting Director of Financial Resources pending the return of the current post holder, and subject to constitutional requirements.

Mr Young raised the issue of training for members of the Committee. It was agreed that a training session on the role, function and key aspects of internal and external audit, as well as risk management would be held on the morning of the next Committee meeting to be held on 25 January 2016. A training plan could also be considered as part of the wider member development training programme.

Mr Young then presented an update in relation to the Annual Governance Statement. The report identified a number of key issues and themes that had emerged during 2014/15 and which would continue to feature in 2015/16. The report also provided the Committee with an update in relation to those issues which were also relevant to the External Auditor's Value for Money (VfM) conclusion contained within the Audit Findings Report elsewhere on the agenda.

It was noted that the Management Team had agreed actions to support the development and strengthening of the internal control framework including the production of a Risk and Opportunity Register and a process that would involve quarterly reports being presented to Management Team, the Cabinet Committee on Performance Improvement and the Audit and Governance Committee.

It was also noted that a revised Internal Audit Plan for 2015/16 and the Audit Plan for 2016/17 would be presented to the next meeting of the Committee in January 2016. The updated plan would identify areas where Internal Audit would work collaboratively with Heads of Service to identify risk and controls.

The Committee raised a number of questions around the Council's governance arrangements and in particular the Internal Audit Service's inability to provide an overall opinion. Concerns were expressed about the Council's ongoing budget pressures and the effects which these might have on the future size, structure and work of the Internal Audit Service. Officers confirmed that the proposed model for the Internal Audit Service would be considered by Management Team in the context of the budget forecasts to 2021 and the Council's decisions on service delivery which would be published for consultation in November 2015 but it was confirmed that there was no proposal to out-source the Internal Audit service.

In response to concerns about the performance of the Council's Procurement Service, officers advised that the actions taken by Management Team and Cabinet had improved performance and transparency around the procurement function since the return of the Service from One Connect Limited. The External Auditor had acknowledged the improvements and was satisfied with the direction of travel in this area. Officers agreed to present a report on the Procurement Service and function to the next meeting of the Committee in January 2016. It was agreed that officers would inform Members what the current staffing vacancy level was in the Procurement Service.

Comments were raised about the forecast overspend in 2015/16. Members were reminded that this matter had been highlighted in a report to Cabinet on 12 August 2015 and the issue would be further addressed as part of the budget report to be presented to Cabinet in November.

Resolved:

(i) That the report including the proposals in relation to the approval of a revised Internal Audit Plan for the remainder of 2015/16 and the Internal Audit Plan for 2016/17 be noted.

(ii) That the Committee is concerned about the possibility of the Internal Audit Service not being able to carry out and fulfil its functions due to the Council's budgetary constraints.

(iii) That the proposed training session for members of the Committee on 25 January 2016 be noted.

6. Approval of the County Council's and County Pension Fund's Letter of Representation 2014 15

A report was presented on the County Council's Management Representation Letter at Appendix 'A' and that for the Lancashire County Pension Fund at Appendix 'B' to the report.

The committee was informed that the Management Representation Letters should be made available to the external auditors (as part of the audit evidence) before the audit report was issued.

It was noted that the Management Representation Letters would be signed on behalf of the Lancashire County Council and the Lancashire County Pension Fund by the Council's S. 151 Officer and the Chair of the Audit and Governance Committee and the Committee was asked to approve them.

Resolved: That the management representation letters, as set out at Appendices 'A' and 'B', to the report now presented be approved.

7. Approval of the County Council's Statement of Accounts 2014/15

A report was presented on a summary of the process of preparation and the main points of the Statement of Accounts for 2014/15; the Statement itself was attached as Appendix 'A'.

Regulations governing the process and delegated authority from the County Council required the Chair of the Committee to sign off the accounts once approved by the Committee.

The Statement of Accounts had been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A number of accounting adjustments agreed with the external auditor and shown in their Audit Findings report at Item 7 of the agenda were reflected within the statement.

The Committee was taken through the main components and key issues of the statement including:

- Details of the Council's spending and income in 2014/15, and how it compared with the budget.
- Financial Statements including the movement in reserves and comprehensive income and expenditure statements, balance sheet and cash flow statement.
- The external auditor's opinion on the accounts.

Officers responded to a number of questions raised by members. Members were informed that the Statement had to be produced in accordance with accounting standards and it was acknowledged that this made some parts of the Statement difficult to read. Officers agreed to see if further changes and improvements could be made to the style and format of the Statement to make it easier to understand. It was suggested that consideration be given to the better use of graphs and pie charts.

With regards to comments made about the Council's reserves, members were reminded that this had been covered in a report to Cabinet on 12 August. It was agreed that the report would be recirculated to members for their information. It was also agreed that a more detailed breakdown of savings on the revenue budget and in particular within the Environment Directorate would be circulated to members.

It was noted that the accounts of the County Council had been placed on deposit and made available for public inspection between 6 July and 31 July 2015.

The Lancashire County Pension Fund accounts were also included with the accounts as well as a separate item on the agenda.

Resolved: That the Lancashire County Council Statement of Accounts for 2014/15 be approved and signed by the Chair of the Committee.

8. External Audit - Lancashire County Council - Audit Findings Report 2014/15

A report was presented by Karen Murray, external auditor, on the overall findings on the audit of the accounts for Lancashire County Council, the proposed opinion on those accounts and the Value for Money conclusion. The external auditor thanked the Council's finance team and other staff for the level of support and assistance provided during the audit.

In commenting on the county council's accounts, the external auditor, informed the committee that the Council's accounts and working papers had again been prepared to a good standard and that none of the matters arising from the audit impacted on the Council's reported financial position. A small number of amendments had been made in agreement with the Interim S.151 officer, in respect of misclassifications and errors. In addition, the Interim S.151 officer had agreed to include some additional disclosures in the accounts in respect of the waste PFI buyout. The accounts had also been amended to strengthen the disclosures in a number of areas to ensure compliance with the Code of Practice and to better identify the nature of the transactions and this was an area where the external audit team would continue to work with the Council to further improve disclosures.

The report also included commentary on the Value for Money conclusion. The external auditor concluded that the Council did not have proper arrangements in place in its use of resources. This related primarily to weaknesses in the Council's arrangements for financial governance. It was recognised that this has been a challenging year for the Council and that Management Team had acknowledged the weaknesses in the Council's governance framework in the Annual Governance Statement for 2014/15.

The key issues impacting on the Value for Money conclusion were that the Council's Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control for the year. The external auditor noted that the Council had received assurance from internal audit that action had been taken to address specific issues raised from their work in 2013/14; that there was assurance from work on 4 key financial systems for 2014/15; and that there were some external assurances as reflected in the Annual Governance Statement. However, the changes to the internal audit plan approved in January 2014/15 meant that the internal audit plan in place for the year wasn't sufficiently broad.

Although Management Team agreed some actions, reported in the Annual Governance Statement approved by Committee in July, to support the development and strengthening of the internal control framework, there had not yet been any progress in delivering this work. As a result, there was a risk the Council would not be able to receive a Head of Internal Audit opinion for 2015/16. Secondly, the Value for Money opinion was impacted by the weaknesses identified in the Council's procurement arrangements which were identified when this was transferred back in-house on 1 April 2014. At that time, the Council identified a number of contracts that had either expired or would do so before a tender process could be run. In total, some £20m of council contracts were identified. It was acknowledged that action had since been taken to address the issues in the Council's procurement function.

The external auditor also commented on the Council's arrangements for strategic financial planning and noted that the Council had identified increasing financial pressures because of risks associated with the identification and delivery of savings schemes and on-going demand-side pressures. She also noted that significant work was underway across the Council to address the position, reporting back in the Autumn in line with the budget setting timetable.

The external auditor reported that the audit would not be certified as closed because the audits for 2012/13 and 2013/14 remained open, pending the conclusion of issues arising in 2014.

Resolved:

(i) That the external audit findings report covering the audit of the County Council for year ended 31 March 2015 be noted.

(ii) That the adjustments to the financial statements and other issues raised by the external auditor, as set out in the report presented, be noted.

9. Approval of the Lancashire County Pension Fund's Statement of Accounts 2014/15

The Committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2014/15, as presented by Abbi Leech Head of Corporate Finance and Interim S.151 officer.

Regulations governing the process and delegated authority from the County Council required that the Chair of the Committee sign off the accounts once they were approved by the Committee.

The Statement of Accounts included the Fund Account and the Statement of Net Assets and had been prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Resolved: That the Lancashire County Pension Fund's Statement of Accounts for 2014/15 be approved and signed by the Chair of the Committee.

10. External Audit - Lancashire County Pension Fund Audit Findings Report 2014/15

A report was presented on the audit findings in relation to the accounts of the Lancashire County Pension Fund.

In commenting on the Lancashire County Pension Fund account, Karen Murray, external auditor, informed the committee that the audit work had not identified any material adjustments affecting the Fund's reported financial position. However, a number of minor adjustments had been made to improve the presentation of the financial statements.

It was reported that the pension fund's financial statements gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and the amount and disposition of the fund's assets and liabilities.

The external auditor thanked Council officers for their support during the audit.

Resolved:

(i) That the external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2015 be noted.

(ii) That the adjustments to the financial statements and other issues raised by the external auditor as set out in the report presented, be noted.

11. Urgent Business

There were no items of urgent business.

12. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Monday 25th January 2016 at 2:00pm at County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston

Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected:
All

Accounts of Lancashire County Developments Limited 2014/15
(Appendix 'A' refers)

Contact for further information:
Beryl Rhodes, 01772 533603,
beryl.rhodes@lancashire.gov.uk

Executive Summary

This report sets out the Financial Statements of Lancashire County Developments Limited for 2014/15.

Recommendation

The Committee is requested to note the 2014/15 Statement of Accounts for Lancashire County Developments Limited.

Background and Advice

Lancashire County Developments Limited (LCDL) is the council's economic development company and is focussed on delivery in line with the County Council's Economic Development Framework.

On 17 July 2003, the Full Council, on the recommendation of the Cabinet, resolved that the Lancashire County Developments Limited audited Statement of Accounts be reported to the Audit Committee for information.

An overview of 2014/15 for the company by its Chair may be seen on pages 3 and 4 of the Financial Statements for LCDL, which are attached at Appendix 'A'. Beryl Rhodes, LCDL Head of Finance, will attend the meeting to respond to any questions.

The LCDL Group of Companies are legally required to have their financial records audited annually. The appointed Auditors are Grant Thornton Chartered Accountants.

Key Points within the Statutory Accounts

The following points summarise the key points from the 2013/14 financial year (ending on 31 March 2014)

1. LCDL Group profit pre-tax was £660,600 for the period

Lancashire County Council

2. The major reasons for this profit were a £391k profit on sale of fixed assets and a lower than anticipated expenditure on economic development projects. The profit on sale of fixed assets comprises the profit on the sale of shares in Plant Impact and the profit made on the disposal of the Church Street property.

3. The company's property portfolio was revalued at 31 March 2015 and this gave rise to an increase in value of the remaining properties of £5m. The increase was across all three remaining sites, with Leyland increasing by £2.8m, White Cross by £1.7m and Rising Bridge by £0.5m.

4. The Balance sheet net worth of the LCDL Group of companies totalled £45,320,485 as at 31 March 2015.

Audit Findings Report:

1. There are no material findings and no misstatements reported.

2. There are two recommendations included:
    a. to help improve the internal control of journal authorisation; and
    b. To ensure cheques are not raised before year end and then posted after year end.

   Both these points have been addressed by management.

The report and accounts was submitted to the LCDL Audit Committee, who recommended the accounts to the Board for signature. The accounts have subsequently been approved for signature by the LCDL Board and have been filed at Companies House.

Consultations
N/A

Implications:

This item has the following implications, as indicated:

Risk Management

No significant risks have been identified

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
Financial Statements	2014/15	Beryl Rhodes, LCDL Tel : 01772 533603

Reason for inclusion in Part II, if appropriate
N/A

Financial Statements
Lancashire County Developments Limited

For the year ended 31 March 2015

Company No. 1624144

Company information

Company registration number :	1624144
Registered office :	P O Box 78 County Hall Preston Lancashire PR1 8XJ
Directors :	Ms N D Penney D Watts D Borrow B Winlow T Martin T M Ashton (Appointed 22 May 2015) J Gibson D J Mein
Secretary :	I Young
Bankers :	The Royal Bank of Scotland Plc 97 Fishergate Preston PR1 2DP
Auditor :	Grant Thornton UK LLP Statutory Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

Index to financial statements

Chair's statement

Lancashire County Developments Ltd (LCDL) has played an important role in developing and growing the Lancashire economy for a number of years. The company has an impressive track record of delivering and co-ordinating business support programmes, providing investment finance through its Rosebud scheme and offering quality accommodation for businesses.

For the financial year the pre-tax profit for the group is £0.7m and a revaluation of the property portfolio as at 31st March 2015 gave rise to an increase in value from £31.5m to £35.3m.

The Balance sheet net worth of the LCDL Group of companies totals £45.3m.

LCDL sits within Lancashire County Council's economic development service which delivers the economic priorities of the County Council. Sustainable economic growth and development are a priority for the County Council and, over the next two year, as the County Council is transformed into a smaller and more focussed organisation, the work of LCDL will be focussed and targeted on those opportunities with the most significant economic growth potential.

LCDL provides loan finance through its Rosebud initiative and in 2014/15 it completed 16 deals with a value of £2.2m.

LCDL's mixed property portfolio is managed by the County Council's Corporate Property Services and is home to over 170 businesses which employ over 2,250 people.

The Lancashire Enterprise Partnership (LEP) was established in 2011 and submitted its Lancashire Strategic Economic Plan (SEP) to government in 2014. The SEP, which forms the basis of the Lancashire Growth Deal, sets out the strengths of the Lancashire economy with a key focus on how economic growth and private sector investment are to be generated.

The County Council's economic development service, including LCDL, will continue to work to support and deliver the economic priorities set out in the SEP and the projects and proposals in existing and future Growth Deals.

LCDL's financial position remains strong and supports a three year business plan which continues the track record of delivery against these economic priorities.

N Penney
Chair of LCDL Group
2015

Report of the directors

The directors present their report together with the audited financial statements of the company and the group for the year ended 31 March 2015.

Principal activities

The principal activities of the group are to invest in Lancashire with a view to acting as a catalyst in promoting the economic development of industry in the County, to provide industrial premises and associated facilities for businesses and to promote job creation and training particularly associated with new technologies.

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989.

Capital funding

Lancashire County Developments Limited is a company limited by guarantee, therefore, does not have a share capital.

Directors and employees

The Board of Directors during the year ended 31 March 2015 is shown below. All served on the Board throughout the year and thereafter, unless otherwise indicated.

Ms N D Penney
G Driver (Resigned 22 May 2015)
D Watts
D Borrow
B Winlow
T Martin
T M Ashton (Appointed 22 May 2015)
J Gibson
D J Mein

At 31 March 2015, the group had no paid employees (2014: Nil), because with effect from 1 January 2004 all employees of the group were transferred to become employees of Lancashire County Council. Management services were also provided by the staff of Lancashire County Council and by professional advisers.

Report of the directors (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report and the Report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditors

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 2015 and signed on its behalf.

Director

Strategic report

Business review

A detailed review of operations of the group during the year and a commentary on the state of affairs, financial position and plans for the future is contained in the Chair's statement.

The group profit before taxation amounted to £660,600 (2014: £1,065,669). The group profit after taxation amounted to £660,600 (2014: profit £926,791), which has been transferred to reserves.

Principal risks and uncertainties

The group uses financial instruments; these include cash and various other items, such as trade debtors and trade creditors that arise directly from its operations.

The existence of these financial instruments exposes the group to a number of financial risks, which are described in more detail below.

- *Liquidity risk* - The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably.

- *Credit risk* - The group's principal financial assets are cash deposits, cash and trade debtors. The credit risk associated with cash is limited. The principal credit risk arises, therefore, from its trade debtors. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

This report was approved by the board on 2015 and signed on its behalf.

Director

Report of the independent auditor to the members of Lancashire County Developments Limited

We have audited the financial statements of Lancashire County Developments Limited for the year ended 31 March 2015 which comprise the principal accounting policies, the consolidated profit and loss account, the statement of total recognised gains and losses, the group and parent company reconciliation of movement in members' funds/(deficit), the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2015 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the independent auditor to the members of Lancashire County Developments Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

STUART MUSKETT (Senior Statutory Auditor)
For and on behalf of
GRANT THORNTON UK LLP
STATUTORY AUDITOR
CHARTERED ACCOUNTANTS
MANCHESTER

Date:

Principal accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention modified by the revaluation of certain fixed assets.

The principal accounting policies of the group remain unchanged from the previous year and are set out below.

Basis of consolidation

The group financial statements combine the financial statements of Lancashire County Developments Limited and all of its subsidiary undertakings.

In the year of acquisition, the consolidated profit and loss account incorporates the group's share of the results of subsidiary undertakings from the date of acquisition.

The group also holds corporate investments in certain companies where its shareholding is in excess of 20% of the total voting capital of these companies. In order to reflect the investment nature of all holdings, the group accounts for profits and losses on all of its corporate investments upon realisation. As the investments are held primarily for the purpose of promoting economic development, disclosure of share capital, reserves and results for the year of each investment, as required by the Companies Act 2006, is not considered appropriate.

Income from investments

Investment income is the amount of income receivable in the accounting period from investments and loans.

Income from property

Property income comprises rents arising from investment properties in the accounting period, but excludes service charges which are credited against the relevant expenditure.

Grant income

Government and EEC grants received and receivable in respect of capital expenditure on investment properties are deducted from the cost of the relevant tangible assets. This does not comply with paragraphs 17 and schedule 27 Schedule 1 to SI 2008/410,which have the effect of prohibiting the deduction of grants from the purchase price of the related asset. This would therefore require the grants to be treated as deferred income.

As stated above no depreciation is provided on investment properties and there would therefore be no corresponding release of any deferred income to the profit and loss account. The directors do not consider that the creation of a permanent deferred credit will show a true and fair view of the state of affairs of the company at the balance sheet date.

Assets under the course of construction

Assets under the course of construction are capitalised at cost less any provision for impairment.

Principal accounting policies (continued)

Investment properties

In accordance with Statement of Standard Accounting Practice No 19, certain of the group's properties are held for long–term investment and are included in the balance sheet at their open market values. The surplus(es) or deficit(s) on revaluation of such properties are transferred to the investment property revaluation reserve. Depreciation is not provided in respect of freehold investment properties. Leasehold investment properties are not amortised where the unexpired term is over twenty years.

This policy represents a departure from statutory accounting principles, which require depreciation to be provided on all fixed assets. The directors consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Corporate investments

Investments are stated at cost less provision for impairment. Provision is made against investments if, in the opinion of the directors, the diminution in value is considered permanent and likely to crystallise in the foreseeable future. All costs incurred in connection with the making of corporate investments are written off in the period in which they are incurred.

Government and EEC grants

Government and EEC grants received and receivable in respect of capital expenditure on investment properties are deducted from the cost of the relevant tangible fixed assets. This does not comply with paragraphs 17 and 27 of Schedule 1 to SI 2008/410, which have the effect of prohibiting the deduction of grants from the purchase price of the related asset. This would therefore require the grant to be treated as deferred income.

As stated above no depreciation is provided on investment properties and therefore, there would be no corresponding release of any deferred income to profit and loss account. The directors do not consider that the creation of a permanent deferred credit will show a true and fair view of the state of the affairs of the group at the balance sheet date.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Consolidated profit and loss account

	Note	2015 £	2014 £
Continuing activities			
Operating income	2	**9,195,355**	7,503,274
Expenditure		**(8,715,572)**	(6,164,023)
Operating profit		**479,783**	1,339,251
Profit on disposal of fixed assets		**391,299**	-
Profit on ordinary activities before interest and taxation		**871,082**	1,339,251
Interest receivable	3	**63,910**	-
Interest payable and similar charges	3	**(274,392)**	(273,582)
Profit on ordinary activities before taxation	2	**660,600**	1,065,669
Taxation on profit on ordinary activities	5	**(51,891)**	(138,878)
Profit retained and transferred to reserves	13	**608,709**	926,791

Statement of total recognised gains and losses

	2015 £	2014 £
Profit for the financial year	**608,709**	926,791
Revaluation in the year	**5,030,000**	2,576,307
Total recognised gains and losses relating to the year	**5,638,709**	3,503,098

Reconciliation of movement in members' funds/(deficit)

Group	2015 £	2014 £
Profit for the year	**608,709**	926,791
Unrealised revaluation of investment properties	**5,030,000**	2,576,307
Net increase in members' funds	**5,638,709**	3,503,098
Members' funds at beginning of the year	**32,322,377**	28,819,279
Members' funds at end of the year	**37,961,086**	32,322,377

Company

Loss for the year	**(568,582)**	(32,105)
Members' deficit at beginning of the year	**(13,719,819)**	(13,687,714)
Members' deficit at end of the year	**(14,288,401)**	(13,719,819)

Consolidated balance sheet

	Note	2015 £	2014 £
Fixed assets			
Investment properties	7	**35,300,000**	31,450,000
Corporate investments	8	**5,050,835**	4,396,822
		40,350,835	35,846,822
Current assets			
Debtors	9	**3,077,029**	6,145,134
Cash at bank and in hand		**7,127,311**	8,255,110
		10,204,340	14,400,244
Creditors :amounts falling due within one year	10	**(5,234,690)**	(10,617,177)
Net current assets		**4,969,650**	3,783,067
Total assets less current liabilities		**45,320,485**	39,629,889
Financed by:			
Capital funding reserve	13	**8,730,878**	8,730,878
Investment property revaluation reserve	13	**7,606,307**	2,576,307
Profit and loss account	13	**21,623,901**	21,015,192
Members' funds		**37,961,086**	32,322,377
Creditors: amounts falling due after more than one year	11	**7,230,000**	7,230,000
Provisions for liabilities	12	**129,399**	77,508
		45,320,485	39,629,885

These financial statements were approved by the Board on 2015 and signed on their behalf by:

N Penney Chair

Company no: 1624144

Company balance sheet

	Note	2015 £	2014 £
Fixed assets			
Corporate investments	8	**9,219,729**	9,219,729
		9,219,729	9,219,729
Current assets			
Debtors	9	**1,130,469**	4,731,564
Cash at bank and in hand		**1,584,548**	378,918
		2,715,017	5,110,482
Creditors :amounts falling due within one year	10	**(18,993,147)**	(20,820,030)
Net current liabilities		**(16,278,130)**	(15,709,547)
Total assets less current liabilities		**(7,058,401)**	(6,489,819)
Financed by:			
Capital funding reserve	13	**7,660,241**	7,660,241
Profit and loss account	13	**(21,948,642)**	(21,380,060)
Members' deficit		**(14,288,401)**	(13,719,819)
Creditors: amounts falling due after more than one year	11	**7,230,000**	7,230,000
		(7,058,401)	(6,489,819)

These financial statements were approved by the Board on 2015 and signed on their behalf by:

N Penney Chair

Company no: 1624144

Consolidated cash flow statement

	Note	2015 £	2014 £
Net cash (outflow) / inflow from operating activities	14	**(1,830,749)**	3,444,911
Returns on investments and servicing of finance			
Interest received		**63,910**	-
Interest paid		**(274,392)**	(273,582)
Net cash outflow from returns on investments and servicing of finance		**(210,482)**	(273,582)
Taxation paid		**(183,408)**	(32,959)
Capital expenditure and financial investment			
Purchase of investment properties		**-**	(2,923,693)
Purchase of corporate investments		**(2,022,740)**	(1,944,959)
Disposal and repayment of corporate investments		**1,691,418**	981,315
Proceeds on disposal of investment properties		**1,428,164**	-
Net cash inflow / (outflow) from capital expenditure and financial investment activities		**1,096,841**	(3,887,337)
Net cash outflow before financing		**(1,127,797)**	(748,972)
Decrease in cash in the year	16	**(1,127,797)**	(748,967)

Notes to the financial statements

1 Constitution

Lancashire County Developments Limited is a company limited by guarantee. At 31 March 2015 there were 3 members (2014: 3), each of whom on a winding–up had undertaken to contribute an amount not exceeding £1.

2 Operating income and profit on ordinary activities before taxation

Operating income and profit on ordinary activities before taxation are attributable to the group's principal activities, which were carried out entirely within the United Kingdom. The profit on ordinary activities before taxation is stated after charging:

	2015	2014
	£	£
Auditors' remuneration		
– audit services	**30,725**	30,355
– non–audit services	**20,000**	19,000
Management fee paid to Lancashire County Council	**579,179**	416,151

Non–audit services relate primarily to tax compliance and advisory fees.

3 Net interest

	2015	2014
	£	£
Interest receivable		
Bank interest receivable	**63,910**	-
Interest payable and similar charges		
Bank loans	**274,392**	273,582

4 Directors and employees

The chairman received £Nil (2014: £Nil) during the year. The total received from the group by the other directors was £Nil (2014: £Nil).

The employees of the group were officially transferred to Lancashire County Council with effect from 1 January 2004. The average number of employees in the year ended 31 March 2015 was £Nil (2014 : £Nil). Employee costs of £955,569 for the year (2014: £936,485) were recharged from Lancashire County Council to Lancashire County Developments Limited and are included within administrative expenses.

Notes to the financial statements

5 Taxation

	2015	2014
	£	£
Corporation tax on profit on ordinary activities at 21% (2014 : 23%)		
– current year	**-**	183,408
– adjustment in respect of prior years	**-**	(107,600)
	-	75,808
Deferred taxation		
– current year (other)	**51,981**	58,529
– adjustment in respect of prior years	**-**	4,541
	51,981	63,070
Tax on profit on ordinary activities	**51,981**	138,878

Factors affecting the tax charge for the year
The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom of 21% (2014 : 23%). The differences are explained as follows :

	2015	2014
	£	£
Profit on ordinary activities before taxation	**660,600**	1,065,669
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 21% (2014 : 23%)	**138,726**	245,104
Effect of:		
Expenses not deductible for tax purposes	**27,977**	14,462
Differences between capital allowances and depreciation	**(54,485)**	(70,155)
Non-taxable income	**(33,238)**	(6,003)
Fixed asset differences	**(52,114)**	-
Adjustment in respect of prior years	**(88,329)**	(107,600)
Unrelieved tax losses and other deductions in the period	**9,131**	-
Capital gains	**12,549**	
Additional deduction for land remediation expenditure	**(870)**	
Other short term timing differences	**40,653**	-
	-	75,808

Notes to the financial statements

6 Profit and loss accounts

Under the provisions of s480 of the Companies Act 2006, Lancashire County Developments Limited has not published its own profit and loss account. The loss dealt with in the financial statements of the parent undertaking is £568,582 (2014 : £32,105).

7 Investment properties

Group

	£
Cost or valuation and net book value	
At 1 April 2014	31,450,000
Disposal	(1,180,000)
Revaluation in the year	5,030,000
At 31 March 2015	**35,300,000**
Cumulative grants	
At 31 March 2015	**3,163,634**
At 31 March 2014	3,163,634

The properties were externally revalued on an open market basis as at 31 March 2015 by DTZ Debenham Tie Leung Limited. The historical cost of the premises are as follows :

	£
At 31 March 2014	28,873,693
Disposals	(1,950,000)
At 31 March 2015	26,923,693

Company

At the year end the cost and net book value of the assets was £Nil (2014: £Nil).

Notes to the financial statements

8 Corporate investments

	Group		Company	
	2015	2014	**2015**	2014
	£	£	**£**	£
Shares in subsidiary undertakings	**-**	-	**200**	200
Shares in associated undertaking	**163,136**	163,136	**-**	-
Loans to subsidiary undertakings	**-**	-	**9,219,529**	9,219,529
Other investments in shares	**778,757**	1,048,302	**-**	-
Other participating interests	**16,357**	10,681	**-**	-
Other loans	**4,092,585**	3,174,703		-
	5,050,835	4,396,822	**9,219,729**	9,219,729

Subsidiary undertakings	**Principal activity**	**% of ordinary shares**	**% of preference shares**
Lancashire County Developments (Investments) Limited	Investment company	100	-
Lancashire County Developments (Property) Limited	Property investment	100	-
Lancashire Enterprises (Investments) Limited	Investment company	100	100
Lancashire County Enterprises (Leasing) Limited	Dormant	100	-
The Lancashire Rosebud (Small Firms) Fund Company Limited (Limited by guarantee)	Dormant	-	-
Associated undertaking			
North West Regional Fund Limited	Investment company	25	-

Other participating interests

Other participating interests at 31 March 2015 represent investments in The HSBC (UK) Enterprise Fund for the North West and the Enterprise Venture Fund. The interests are 11.9% and 15.7% respectively (2014 : 11.9% and 15.7% respectively).

Notes to the financial statements

8 Corporate investments (continued)

Group

	Shares in associated undertakings	Other participating interests	Other investment in shares	Loans	Total
	£	£	£	£	£
Cost					
At 1 April 2014	163,136	10,681	1,153,233	4,337,121	5,664,171
Additions	-	-	-	2,022,741	2,022,741
Amounts written off	-	-	-	(74,975)	(74,975)
Repayments	-	-	-	(1,296,492)	(1,296,492)
Disposals	-	-	(251,791)	-	(251,791)
Reviews	-	-	-	9,471	9,471
Net share of profits of other participating interests	-	5,677	-	-	5,677
At 31 March 2015	163,136	16,358	901,442	4,997,866	6,078,802
Provisions					
At 1 April 2014	-	-	104,931	1,162,418	1,267,349
Charge/(credit) for the year	-	-	17,755	(182,314)	(164,559)
Amounts written off	-	-	-	(74,823)	(74,823)
At 31 March 2015	-	-	122,686	905,281	1,027,967
Net book value					
At 31 March 2015	**163,136**	**16,358**	**778,756**	**4,092,585**	**5,050,835**
At 31 March 2014	163,136	10,681	1,048,302	3,174,703	4,396,822

Other investments	**Principal activity**	**% of ordinary shares held at 31 March 2015**	% of ordinary shares held at 31 March 2014
North West Regional Fund Limited	Investment company	25	25
SOL Publications Limited	Publishing and Media company	15	15
ISIS Forensics Limited	Development of software	7.46	7.46

The group holds other investments in which more than 20% of share capital is held. The group does not include these as associated undertakings as no significant influence is exerted over these companies.

Notes to the financial statements

9 Debtors: amounts falling due within one year

	Group		Company	
	2015	2014	**2015**	2014
	£	£	**£**	£
Trade debtors	**2,675,960**	4,563,534	**1,070,963**	3,462,200
Prepayments and accrued income	**345,306**	777,870	**28,237**	23,360
Amounts owed by parent undertaking	**-**	-	**154**	1,236,321
Other debtors	**-**	797,415	**-**	-
Social security and other taxes	**55,763**	6,315	**23,175**	-
Deferred taxation (note 12)	**-**	-	**7,940**	9,683
	3,077,029	6,145,134	**1,130,469**	4,731,564

10 Creditors: amounts falling due within one year

	Group		Company	
	2015	2014	**2015**	2014
	£	£	**£**	£
Bank overdraft	**-**	-	**6,577,643**	14,233,357
Social security and other taxes	**-**	347,078	**-**	347,078
Trade creditors	**301,197**	95,725	**301,197**	210,544
Amounts owed to other group undertakings	**-**	-	**9,242,436**	2,754,663
Corporation tax	**-**	183,408	**-**	-
Accruals and deferred income	**4,933,493**	9,990,966	**2,871,871**	3,274,388
	5,234,690	10,617,177	**18,993,147**	20,820,030

Notes to the financial statements

11 Creditors: amounts falling due after more than one year

	Group and Company	
	2015	2014
	£	£
Amount owed to members	**7,230,000**	7,230,000
	7,230,000	7,230,000

The loan included in creditors: amounts falling due after more than one year of £7,230,000 is repayable in full on 30 September 2030. Notional interest is charged on this loan which is payable to the three members.

12 Provisions for liabilities

Deferred taxation

	Group	Company
	£	£
Provision/(asset) at 1 April 2014	77,508	(9,683)
Charge for the year	51,891	1,743
Provision/(asset) at 31 March 2015	**129,399**	(7,940)

Deferred taxation provided for in the financial statements is set out below.

	Group		Company	
	Amount provided		Amount provided	
	2015	2014	**2015**	2014
	£	£	**£**	£
Accelerated capital allowances	**129,399**	77,508	**(7,940)**	(9,683)
	129,399	77,508	**(7,940)**	(9,683)

Notes to the financial statements

13 Reserves

Group

	Capital funding reserve	Investment property revaluation reserve	Profit and loss account
	£	£	£
At 1 April 2014	8,730,878	2,576,307	21,015,192
Profit for the year	-	-	608,709
Revaluation in the year	-	5,030,000	-
At 31 March 2015	8,730,878	7,606,307	21,623,901

Company

	Capital funding reserve	Profit and loss account
	£	£
At 1 April 2014	7,660,241	(21,380,060)
Loss for the year	-	(568,582)
At 31 March 2015	7,660,241	(21,948,642)

14 Net cash inflow from operating activities

	2015	2014
	£	£
Operating profit	**479,783**	1,339,251
Decrease / (increase) in debtors	**3,068,105**	(2,923,965)
(Decrease) / increase in creditors	**(5,199,081)**	5,046,540
Share of profit in participating interests (note 8)	**(5,677)**	(16,915)
Non-cash movement on corporate investments	**(173,879)**	-
Net cash inflow from operating activities	**(1,830,749)**	3,444,911

15 Reconciliation of net cashflow to movement in net funds/(debt)

	2015	2014
	£	£
Decrease in cash in the year	**(1,127,797)**	(748,967)
Cash outflow from movement of debt	**-**	-
Movement in net funds	**(1,127,797)**	(748,967)
Opening net funds	**1,025,110**	1,774,077
Closing net (debt) / funds	**(102,687)**	1,025,110

Notes to the financial statements

16 Analysis of changes in net (debt)/funds

	At 31 March 2014	Cashflows	**At 31 March 2015**
	£	£	**£**
Cash at bank	8,255,110	(1,127,797)	**7,127,313**
Other loans:			
Amount owed to members	(7,230,000)	-	**(7,230,000)**
	1,025,110	(1,127,797)	**(102,687)**

17 Related parties

Sales to Lancashire County Council during the year amount to £3,719,752 (2014: £3,329,345). Purchases from Lancashire County Council amount to £1,709,310 (2014: £3,254,488). The amount owed by this related party at 31 March 2015 is £826,308 (2014: £3,006,955). The amount owed to this related party at 31 March 2015 is £Nil (2014: £31,647). Included within creditors greater than one year is a long term loan due to this related party of £7,230,000 (2013: 7,230,000).

Purchases from Marketing Lancashire Limited amounted to £40,000 (2014: £Nil). There were no balances outstanding at the year end with this company.

18 Contingent liabilities

The company has issued a cross guarantee secured on assets held by the company and other companies within the group.

The cross guarantee relates to a borrowing facility and covers the obligations of each other company in the group. The total amount outstanding by the group at 31 March 2015 was £Nil (2014: £Nil).

19 Capital commitments

At 31 March 2015, the group and the company had capital commitments of £Nil (2014: £Nil).

20 Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Lancashire County Council, an entity based in England and Wales.

Agenda Item 5

Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected: None

Update on Treasury Management Activity
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

The report set out in Appendix 'A' is a review of the County Council's treasury management activities in 2015/16. Management activities are regulated by the CIPFA Code of Practice and it is best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions during 2015/16,
- Borrowing activity,
- Investment activity,
- Actual results measured against 2015/16 Prudential indicators and Treasury Management Indicators.

Recommendation

The Committee is recommended to note the review of treasury management activities in 2015/16 for the period 1st August to 30th November 2015.

Background and Advice

As part of the County Council's governance arrangements for its treasury management activities, the Audit and Governance Committee is charged with oversight of the County Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the Interim Director of Financial Resources and the content of these reports is used as a basis for this report to the Committee.

This report outlines a review of the borrowing and lending activity during the period 1 August to 30 November 2015 and sets this activity against the current economic background including risk management strategies to protect the capital value of the County Council's investments.

Consultations

Arlingclose provides advice on treasury management.

Implications

This item has the following implications, as indicated:

Risk management

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2015/16	Feb 2015	Andy Ormerod Ext 34740
CIPFA TM Code of Practice	2011	Andy Ormerod Ext 34740

Appendix A

Treasury Management Activity 2nd Report 2015-16

1. Background

The County Council's Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

This report considers treasury management activity between 1st August 2015 and 30th November 2015.

2. Economic Context in the period

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

In international markets China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

2.1 Interest Rate Environment

The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

2.2 Implications for Lancashire County Council Treasury Strategy

Since 2010 the County Council have used short term market borrowing to fund capital expenditure so taking advantage of historically low interest rates. This policy has proved to be very effective in an environment where rates have stayed low for much longer than expected and continue to do so. Prospects for interest rate increases are continuously monitored and flexible arrangements are maintained to enable the Council to react in good time should the path of interest rate forecasts change.

3. Current Treasury Management Policy

Full Council approved the 2015/16 treasury management strategy at its meeting on 12th February 2015. The County Council's stated Treasury Management objectives are:

a) To ensure the security of the principal sums invested which represent the County Council's various reserves and balances,
b) To ensure that the County Council has access to cash resources as and when required,
c) To minimise the cost of the borrowing required to finance the County Council's capital investment programme, and
d) To maximise investment returns commensurate with the County Council's policy of minimising risks to the security of capital and its liquidity position.

3.1 Investment Activity

Investments at the 30th November are £769.18m consisting of £188.07m in bank and Local Authority deposits and £581.11m in bonds. In total investments have increased by £57.25m over the period. The table below shows the investment activity between 1st August 2015 and 30th November 2015.

Bank and Local Authority Deposits	Call/MMF £m	Fixed £m	Structured £m	Total £m
Balance 1 August 2015	**80.85**	**56.50**	**39.46**	**176.81**
Maturities	-56.01	0.00	0.00	-56.01
New Investments	66.95	0.00	0.33	67.28
Balance 30 November 2015	**91.79**	**56.50**	**39.79**	**188.07**
Bonds	**LA Bonds £m**	**Gilts £m**	**Others £m**	**Total £m**
Balance 1 August 2015	**36.29**	**294.28**	**204.56**	**535.13**
Maturities	-0.22	-554.21	-163.92	-718.35
New Investments	0.18	445.23	318.93	764.33
Balance 30 November 2015	**36.24**	**185.29**	**359.57**	**581.11**

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority.

This is the reason LCC no longer invests in unsecured term bank deposits. The final investment of the type is the structured loan of £39.79m shown in the table below. This deposit matured on 7th December 2015 and at the time of writing has been repaid. The remaining fined deposits are all with other local authorities.

Within the period, there has been a decrease of £109m in the amount of Gilts being held with a corresponding increase in other bonds of £155m. This portfolio rebalancing is in response to market changes and the additional bond investments have been in liquid securities, principally floating rate notes to protect advance short term borrowing against interest rate risk. There has been no reduction of the overall credit quality of the portfolio

The current rate of return on the investment portfolio measured by Arlingclose Ltd treasury consultants is 1.36% which compares favourably with the benchmark 7 day LIBID which averages 0.46% over the same period.

3.2 Borrowing Activity

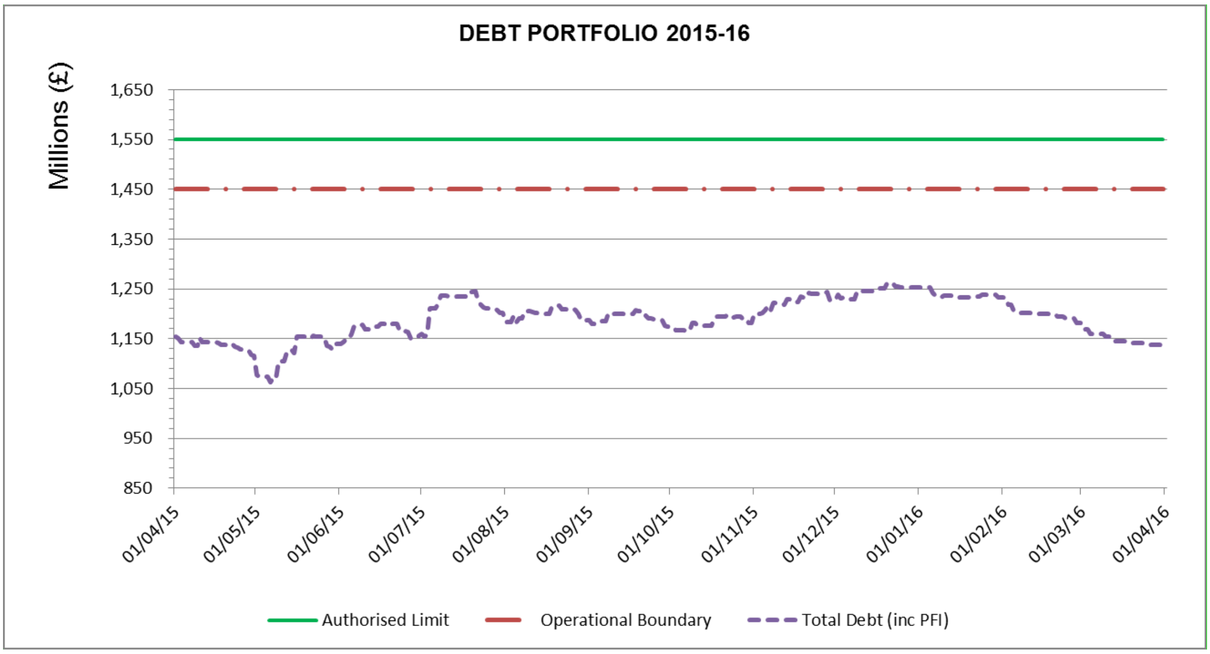
Current market conditions continue to enable the County Council to take advantage of short term market borrowing. The table below shows the borrowing activity which has taken place between 1st August 2015 and 30th November 2015.

<u>Borrowing</u>	PWLB Fixed £m	PWLB Variable £m	Long Term Market Loan £m	Other Locals £m	Police, Fire & Lancashire District Councils £m	Total £m
Balance 1 August 15	**213.10**	**125.75**	**52.23**	**566.90**	**104.93**	**1,062.91**
Maturities	0.00	0.00	-0.45	-133.40	-124.00	-257.84
New Borrowing	0.00	0.00	0.00	199.90	114.85	314.75
Balance 30 November 2015	**213.10**	**125.75**	**51.78**	**633.40**	**95.78**	**1,119.81**
Public Finance Initiative (PFI) Liability	-	-	-	-	-	172.00
Total Borrowing & PFI						**1,291.81**

The outstanding borrowing has increased by £56.90m in the period. The increase in borrowing reflects the re-financing of deals maturing in the near future in order to take advantage of current low interest rate offers from other Local Authorities and before liquidity dries up approaching the holiday period.

Total borrowing now stands at £1.292bn including the financing of £172m of assets through remaining non-waste PFI schemes.

The majority of the maturing borrowing for the current financial year has now been replaced with only around £20m outstanding before 31st March 2016.



The graph above shows the level of debt for the current financial year compared with the prudential indicator operational and authorised boundaries. The debt shown from 30th November represents the debt position if no maturing debt was replaced rather than an estimate of the expected position.

The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.

The Operational Boundary is a prudent estimate of debt but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.

Total debt during the year has remained below the Operational Boundary.

The current interest rate payable on debt measured by Arlingclose Ltd treasury consultants is 1.649%. The most recent benchmarking figure available of the average rate for all Arlingclose clients (as measured on 31st March 2015) is 4.13%.

4. Budget Monitoring Position

The net financing charges budget for 2015/16 is forecasted to be £12m lower than budget at the end of the financial year. The reasons for this are:

- The refinancing of the waste recycling centres was initially anticipated to be repaid on a straight line basis. However, the decision has been taken to make the repayment on an annuity basis. This has resulted in a reduced Minimum Revenue Provision (MRP) of some £5.6m. It is estimated to be a similar amount for the next two years.

- When calculating the estimated MRP it was planned to apply up to £39m of borrowing in 2014/15. Due to the re-phasing of the Capital Programme this borrowing was not required thereby reducing requirement to charge the MRP in 2015/16.

- Higher than budgeted interest received of £8.038m is primarily due to the increased value of the County Council's low risk investment portfolios following market movements during recent months. This enabled some core Gilt bonds to be sold resulting in a net gain of £2.960m. There have also been additional gains of £5.078m resulting from sales of traded bonds again due to the volatility of the market.

- The saving on the MRP and higher than budgeted income received are offset by the agreed contribution towards the Todmorden Curve Rail project of £2.300m which was not in the original budget.

This position is kept under regular review taking account both of ongoing performance and also market movements and the forecast is provided to the Interim Director of Financial Resources on a monthly basis.

5. Prudential Indicators 2015/16

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

The County Council are within the Prudential Indicators as detailed in Annex 1.

Annex 1

Prudential Indicators

1. Adoption of CIPFA Treasury Management Code of Practice	Adopted

2. Authorised limit for external debt **A prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements** The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.	**2015/16**	**30th November Actual**
	£m	**£m**
Borrowing	1,300	1,120
Other long term liabilities (PFI schemes)	250	172
TOTAL	**1,550**	**1,292**

3. Operational boundary for external debt The Operational Boundary is a prudent estimate of debt but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.	**2015/16**	**30th November Actual**
	£m	**£m**
Borrowing	1,250	1,120
Other long term liabilities (PFI schemes)	200	172
TOTAL	**1,450**	**1,292**

4. Capital Financing Requirement to Gross Debt The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.	**2015/16**	**30th November Actual**
	£m	**£m**
Capital Financing Requirement	861	830
Estimated gross debt	1,010	1,120
Debt to Capital Financing Requirements	117%	135%

Gross borrowing is higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing but it does not form part of the capital financial requirement calculation.

The County Council confirms that it has complied with its Prudential Indicators for 2015/16 which were approved on 26th February 2015 as part of the County Council's Treasury Management Strategy Statement.

Treasury Management Indicators

1. Interest Rate exposure The limit measures the County Council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.	**Upper Limit**	**Actual**
	£m	**£m**
Net Interest Payable – Fixed Rate	50.40	6.70
Net Interest Payable – Variable Rate	5.00	1.30
1 year impact of a 1% rise	10.00	0.70

2. Maturity structure of debt The limit on the maturity structure of debt helps control refinancing risk.	**Lower Limit %**	**Upper Limit %**	**Actual %**
Under 12 months	-	75	21
12 months and within 2 years	-	75	36
2 years and within 5 years	-	75	17
5 years and within 10 years	-	75	6
10 years and above	25	100	20

3. Investments over 364 days The limit on the level of long term investments helps to control liquidity, although the majority of these investments are held in available for sale securities.	**Upper Limit**	**Actual**
	£m	**£m**
Total invested over 364 days	900	568

4. Minimum Average Credit Rating To control credit risk the County Council requires a very high credit rating from its treasury counterparties.	**Benchmark**	**Actual**
Average counterparty credit rating	A+	AA+

Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected:
None

Information Governance - update

Contact for further information:
Debbie Bonser, Legal and Democratic Services, 01772 535495
debbie.bonser@lancashire.gov.uk

Executive Summary

A progress report on Information Governance arrangements within the County Council.

Recommendation

The Committee is asked to note the report.

Background and Advice

The Committee have previously requested regular updates on progress in developing robust arrangements to manage the County Council's responsibilities to uphold information rights in the public interest, promote openness and protect data privacy for individuals.

Information Commissioners Office (ICO) Audit

Since the last information governance update to this committee, on the 30th June 2015, good progress has been made in the provision of information governance services to the Council. The ICO returned in October 2016 and praised the Council for their significant progress in all 3 ICO audit scope areas (Governance, Training and Subject Access requests).

Areas singled out for praise included:

- The creation of a draft Corporate Risk Register showing all high level risks and opportunities faced by the Council.
- The introduction of an information risk management group identifying high level information risks and opportunities and creating mitigating (or maximising) actions before pushing them to the Corporate Risk Register.
- The introduction of a Privacy Impact Assessment Policy which includes a methodology to identify, assess and mitigate privacy risks at the start of all new projects.

Lancashire County Council

- The provision of secure email and remote access for social workers screening subject access requests prior to disclosure.

The ICO audit process is now complete and all possible civil monetary penalties in lieu of security breaches at the Council have been cancelled.

Awareness Raising and Work Areas

- 50 IG champions have been nominated, 1 for every service across the Council. They have been provided with IG tools to protect information and work to promote information governance from within their service.

- An updated Information Governance intranet site can be found here: http://lccintranet2/corporate/web/?siteid=4305&pageid=18915&e=e

- There has also been a realignment of IG work areas in line with ICO recommendations:

  - Information Risk – looks after information risk, sharing and privacy.

  - Information Access – looks after FOI's, subject access requests, disclosures to the police and transparency of data on the web site.

  - Information Security – investigates information security incidents, and secure shared connections e.g. N3 (NHS) and Public Service Network (Government bodies) and technical security measures.

  - Information Accounts – works with 50 IG champions, one in each service, promotes the IG eLearning course, communications, spot checks, performance statistics.

Information Sharing Gateway

- A collaborative project of members of the Lancashire and Cumbria Information Gateway Group, including representatives from Acute Trusts, Mental Health, Local Authorities, Clinical Commissioning Groups, Police and the Ambulance service, have developed an electronic system to approve information sharing between the organisations and promote rapid adoption of information sharing across the public sector. Already, over 100 organisations in Cumbria and Lancashire are using this system, which is also under evaluation for use as a national tool in Health and Social Care.

- The Council already has 50+ agreements on this gateway.

- The gateway project recently won the "Effective Information Sharing and Security Award' from the iNetwork Awards.

NHS IG Toolkit

The NHS IG Toolkit is a Department of Health (DH) Policy delivery vehicle that the Health and Social Care Information Centre (HSCIC) maintain. It draws together the legal rules and central guidance set out by the Department of Health policy and presents them in a single standard as a set of information governance requirements. Organisations are required to carry out self-assessments of their compliance against these IG requirements before they are allowed to access NHS data.

The Council recently achieved a high score of 94% against these NHS Toolkit attainment levels. This is one of the highest scores on the toolkit.

Security breaches

Since the last information governance update to this committee there have been a number of security incidents, but none serious enough to be reported to the Information Commissioners Office. They mainly consist of lost or stolen laptops and mobile phones or mail sent to the wrong address.

All people responsible for information security incidents must complete the Information Governance training. Also extra training is targeted at services experiencing multiple incidents.

Consultations

N/A

Implications

This item has the following implications, as indicated:

Risk management

It is important that the County Council continue to make progress in developing robust arrangements to secure information properly and that these arrangements be maintained if the Council is to avoid significant financial and reputational damage.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
None		

Agenda Item 7

Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected: All

External Audit - Annual Audit Letter
(Appendix 'A' refers)

Contact for further information:
Karen Murray, 0161 234 6364, Director, Grant Thornton
karen.l.murray@uk.gt.com

Executive Summary

The Annual Audit Letter summarises the outcome of our work in 2014/15. It includes the key messages in relation to the financial statements audit and audit opinion, and Value for Money (VfM) conclusion.

The Annual Audit Letter will also be reported to Cabinet.

Recommendation

The Committee is asked to note the Annual Audit Letter.

Background and Advice

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions on the Annual Audit Letter which is attached at Appendix 'A'.

Consultations

The report has been agreed with the Council's management and will also be reported to Cabinet

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/a		

Reason for inclusion in Part II, if appropriate

N/a

The Annual Audit Letter for Lancashire County Council

Year ended 31 March 2015

27 October 2015

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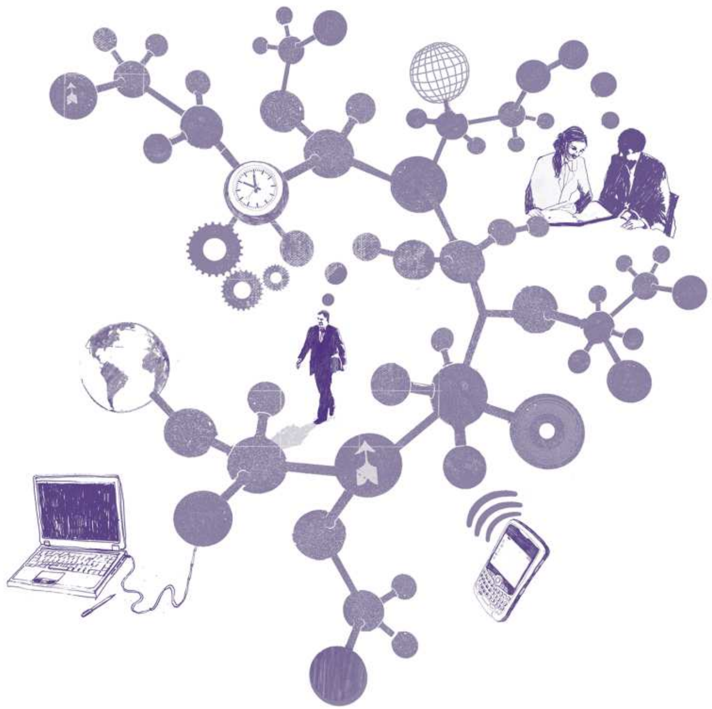

Contents

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Lancashire County Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 13 April 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

<table>
<tr>
<td>Financial statements audit (including audit opinion)</td>
<td>We reported our findings arising from the audit of the financial statements for the County Council and the Lancashire Pension Fund in our Audit Findings Reports to the Audit and Governance Committee on 28 September 2015.

The key messages from our audit of the County Council's accounts were:
• The financial statements were prepared to a good standard and were largely complete
• We agreed some changes to the accounts to improve the disclosures, particularly relating to the Council's refinancing of the waste PFI scheme.

At the time of the Audit & Governance Committee our review of the Council's Whole of Government Accounts (WGA) return was outstanding. As part of the work required to complete this, we identified one further error in the Council's accounts. This related to grant paid to the Council by Department for Education. It was classified within the statement of accounts as being from an other government department but was correctly reflected in the whole of government accounts return as having been paid by Department for Education. The grant of £2.3m was not material to the statement of accounts. We agreed with management and the Chair of the Audit Committee not to amend the accounts for this on the grounds of materiality.

The key messages arising from our audit of the Lancashire Pension Fund accounts were:
The financial statements were prepared to a good standard
• We did not identify any adjustments impacting on the fund's reported financial position
• We agreed a number of amendments to improve the presentation and disclosures in the statements, including a non-adjusting post balance sheet event note in respect of the asset and liability management partnership proposal with the London Pension Fund Authority.

We issued an unqualified opinions on the two sets of financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms the financial statements give a true and fair view of the financial position and of the income and expenditure recorded by the Council and the Pension Fund.</td>
</tr>
</table>

Page 55

Key messages - continued

Value for Money (VfM) conclusion	We issued a qualified VfM conclusion for 2014/15 on 30 September 2015. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we highlighted the following issues which gave rise to an 'except for' VfM conclusion: • The Council's Head of Internal Audit was unable to issue an overall opinion on the system of internal control at the Council for 2014/15 because of the narrow scope of work undertaken by internal audit; • On bringing the Council's procurement function back in house in April 2014, the Council identified several contracts which had either expired, or were due to expire, before they could be properly re-procured; • The Council's financial planning has identified significant financial pressures from 2015/16 onwards. The Council is now working to identified savings to meet a spending gap from 2016/17 to 2020/21 of £294m. Overall, our work highlighted that the Council has had a challenging year. These challenges have impacted on the Council's wider governance framework. The Council has reflected this in its Annual Governance Statement for the year and subsequent update reports to the Audit & Governance Committee. In 2013/14, the Council's Head of Internal Audit give an overall "limited assurance" opinion on the operation of the Council's overall system of internal control. Management Team set out their commitment to ensuring the issues were addressed in 2014/15 and a decision was taken to re-direct Internal Audit resource for the remainder of the 2014/15 year. A revised audit plan was presented to the Audit & Governance Committee in January 2015. The consequences of these changes to the audit plan were that: • management now has assurance that the specific controls identified as 'not operating' during 2013/14 have been addressed; • Internal Audit's work on 4 key financial systems (General Ledger, Treasury Management, Payroll and Central Accounts Payable) provided assurance over the operation of the controls within those areas; but • the revised plan (as approved) did not provide sufficient coverage of the Council's activities to support an overall Head of Internal Audit opinion in compliance with the requirements of Public Sector Internal Audit Standards. Management Team have re-iterated their commitment to ensuring that there is a robust internal control framework in place across the Council and for 2015/16, intended to use the skills and experience of the Internal Audit team to work with Heads of Service across the Council to ensure risks and controls have been properly identified and are being operated as intended. However, this work had not yet commenced at September 2015 because the Council identified a lack of capacity in the finance department to work on a number of key projects. Staff from Internal Audit were seconded to the finance team to provide operational support but will all return to their substantive posts by the end of November 2015.

Key messages - continued

Value for Money (VfM) conclusion	More recently, a high level audit plan has been prepared which provides for coverage of the Council's main financial systems. The work to be completed by the remaining available internal audit resource is currently being refined to ensure it is properly focussed on the areas of risk. There is a recognition that this will need to be considered further in the light of the strategic decisions expected to be taken by members about the future size and shape of the Council. The plan will be presented to the Audit and Governance Committee in January 2016 although work in delivering elements of it will already by underway. Further progress has been made in addressing the other weaknesses in the Council's governance framework identified in 2013/14 and 2014/15: • action has been taken to address the failures in the procurement service. Since it was brought back in house in April 2014, a procurement strategy has been developed and a comprehensive contract register has been put together. This will provide a basis for the re-letting of contracts in line with proper processes • significant progress has been made in strengthening the Council's arrangements for Information Governance; • the Council's arrangements for identifying, assessing and reporting risks has been developed and work is now underway to ensure it is consistent and embedded across the Council. A formal risk register is due to be approved by Management Team and will be presented to Audit and Governance Committee in January 2016. We have also considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes: • Prioritising resources • Improving efficiency & productivity Overall our work highlighted the Council has delivered the first phase of its transformation programme during 2014/15. The restructure of the Council's Management Team, with new roles and responsibilities in place, supports a more streamlined and focussed Council. In addition, the Council has moved away from it's former directorate structure and has appointed Heads of Service to lead the operational delivery. However, the transformation programme has now been paused whilst the Council considers its options for meeting the savings gap and on-going service pressures identified. The scale of the savings needed by the Council mean some very difficult decisions will be required on the way in which statutory services will be delivered, and on the options for, and scale of, discretionary services provided in the future. Overall, the Council remains in a difficult and challenging position. We will continue to monitor progress to ensure that actions remain on track.

Key messages - continued

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements, except for one unadjusted item in the statement of accounts that was correctly disclosed in the Whole of Government Accounts.
Audit fee	Our fee for Council's 2014/15 audit was £150,660, excluding VAT which was in line with our planned fee for the year. The fee for the pension fund audit was £35,906. Further detail is included within Appendix A.

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	150,660	150,660
Grant certification on behalf of Audit Commission	2,800	2,800
Pension Fund audit scale fee	34,169	34,169
IAS19 Protocol audit work	1,737	1,737
Total audit fees	**189,366**	**189,366**

Fees for other services

Service	Fees £
Audit related services • Reasonable assurance report on the 2014/15 Teacher's Pensions return	4,200

Reports issued

Report	Date issued
Audit Plan	April 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015

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Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected: None

External Audit – Audit Update
(Appendix 'A' refers)

Contact for further information:
Karen Murray, 0161 234 6364, Director, Grant Thornton
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Executive Summary

This update report includes progress to date with the 2015/16 audit of the accounts, Value for Money (VfM) conclusion and other work.

The outcome of our work will be reported to the Audit and Governance committee throughout the year. The report also provides additional information on sector developments to the members of the Committee as those charged with governance for the Council.

Recommendation

The Committee is asked to note the update report.

Background and Advice

Karen Murray, Engagement Lead, will attend the meeting to present the report which is attached at Appendix 'A' and to answer any questions.

Consultations

The report has been agreed with the Interim Director of Financial Resources

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Lancashire County Council

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/a		

Reason for inclusion in Part II, if appropriate

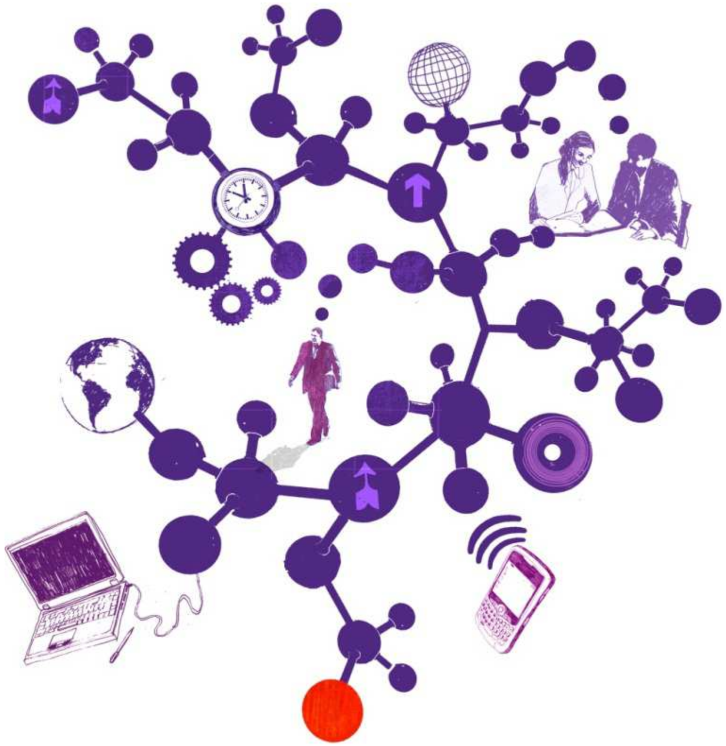
N/a

Grant Thornton

Audit and Governance Committee Update - Lancashire County Council

Year ended 31 March 2016

January 2016



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Contents

Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Caroline Stead Audit Manager T 0161 234 6355 M 07880 456 208 caroline.l.stead@uk.gt.com

Progress at January 2016

Work	Planned date	Complete?	Comments
2015-16 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.	March 2016	On track	We expect to present our audit plan to the meeting of the Audit and Governance Committee in March 2016.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	January to March 2016	On track	We commenced our planning discussions with management in December 2015. Our interim visit will be undertaken in February and March 2016.
2015-16 final accounts audit Including: • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	June / July 2016	On track	The Council is planning to prepare the draft financial statements by the end of May 2016, two weeks earlier than in 2015. We have already had a meeting with your finance team about the 2015/16 audit process and timing.

Page 67

Progress at January 2016

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The Code requires us to conclude whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion. The National Audit Office (NAO) recently consulted on a revised approach to the VfM conclusion and issued its guidance for auditors on value for money work in November 2015. The guidance identifies one single criterion for auditors to evaluate: *In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.* In reaching our overall judgements, auditors will have regard to the following sub criteria: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	January to June 2016	On track	We will carry out an initial risk assessment to determine our approach and report this in our audit plan in March 2016.
Other work – grant claims We have undertaken work on your Teachers' Pension return. We provided a reasonable assurance report on this to the Council and to Teachers' Pensions by the deadline of 30 November 2015. We are currently completing work on your School-centred initial teacher training return.	November 2015 January 2016	On track	

Page 68

George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Are members aware of the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Are members aware of the government's new homes announcements?

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

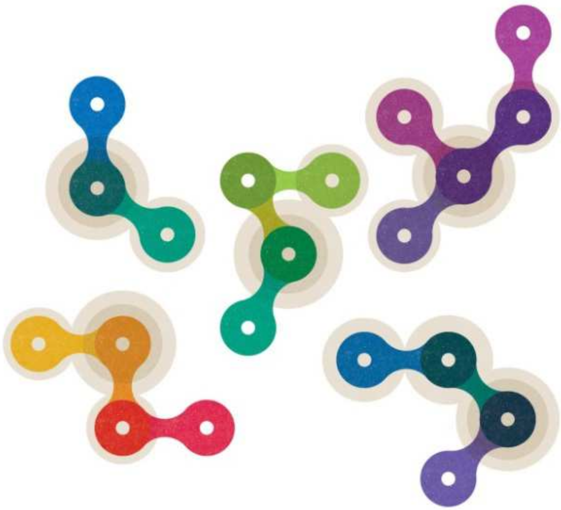
With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:
http://www.grantthornton.co.uk/en/insights/making-devolution-work/

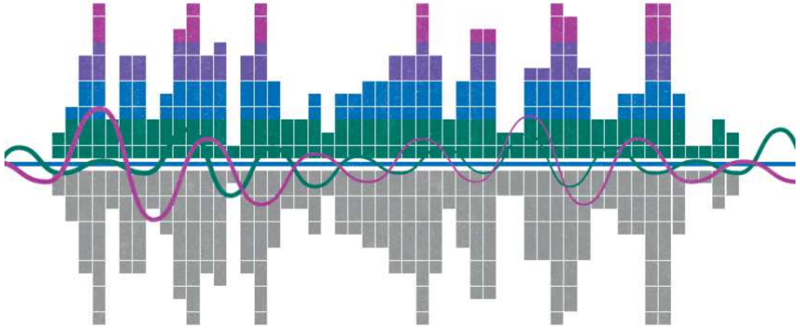
Hard copies of our report are available from your Engagement Lead and Audit Manager



Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.



The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:
http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf

Hard copies of our report are available from your Engagement Lead and Audit Manager

Page 72

Growing healthy communities: The Heath and wellbeing index

Grant Thornton market insight

Our Place Analytics team reveals how collaboration between local authority stakeholders can help address health quality determinants (social, economic and environmental) and result in improved health outcomes (quality of lifestyle and health conditions).

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live. Our index assesses 33 key health determinants and outcomes of health for the 324 English local authorities, to provide a coherent, national story on health and wellbeing. It highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes.

The purpose of this report is to help stakeholders – NHS providers and clinical commissioning groups (CCGs), local authorities, health and social care providers, housing associations, fire authorities and the police – to improve collaboration through a better understanding of the correlation between the economic, social and environmental health determinants and the health outcomes within their locality. It includes a concluding checklist of questions to help facilitate discussions in the light of joint service needs assessments.

The data behind the index also allows segmentation which reveals areas around the country with similar health determinants, but better outcomes. This underscores the need to work in collaboration with peers that may not be 'next door' if there is an opportunity to learn from 'others like us'.

Our report, Growing healthy communities: Health and Wellbeing Index, can be downloaded from our website: http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/growing-healthy-communities-health-and-wellbeing-index.pdf

Hard copies of our report are available from your Engagement Lead and Audit Manager

Knowing the Ropes – Audit Committee Effectiveness Review

Page 74

Grant Thornton

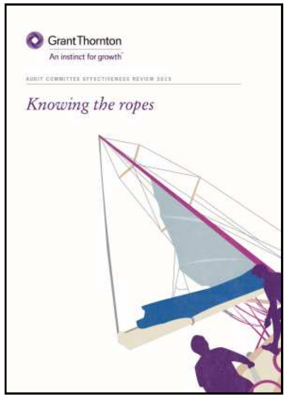
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/

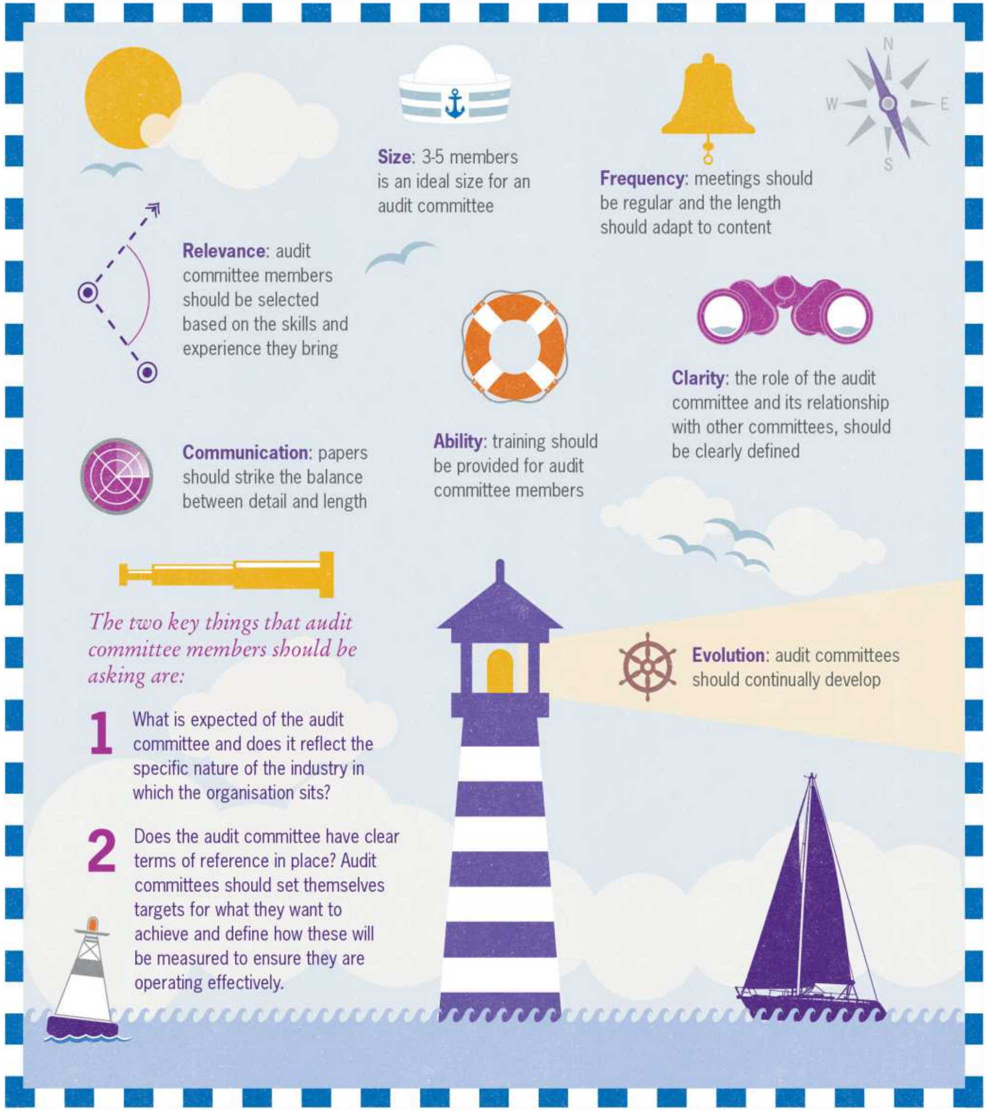
The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.





Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager

KLM4

Slide 14

KLM4 Karen L Murray, 06/01/2016

Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected:
none

Strategic Internal Audit Plan: 2015/16, 2016/17 and Beyond
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

This paper explains the approach to establishing a strategic plan of work to be undertaken by the county council's internal audit service for 2015/16, 2016/17 and beyond. Appendix 'A' sets out the audit planning process and the plan itself in more detail.

Recommendation

The Committee is asked to consider and approve the strategic Internal Audit Plan.

Background and advice

Appendix 'A' sets out the background and context to this report.

Consultations

The work set out in this strategic plan has been discussed with members of the Management Team both collectively and individually.

Implications

This item has the following implications, as indicated:

Risk management

This report supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Lancashire County Council

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A	-	

Reason for inclusion in Part II, if appropriate

Not applicable

Strategic internal audit plan: 2015/16, 2016/17 and beyond

1. This paper explains the work the Internal Audit Service plans to undertake during 2016 and 2017. The work set out here will be subject to amendment as its scope is developed with managers to reflect changes across the council as further decisions are made about the future shape of the organisation and the services it provides. It therefore addresses the audit years 2015/16 and 2016/17, and recognises that some planned audit work may extend beyond this.
2. Although its services are facing further significant reconfiguration and some will cease, the council continues to provide a wide range of services across the county. Senior managers will be aware both of the risks to achieving their service objectives and the risks inherent in their work, and each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level. However, as was reported to the Audit and Governance Committee in September 2015, the organisation's operating structure will change again and its redesigned control frameworks will therefore also change. The chief executive, leader, Audit and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively in practice.
3. Using the principles and the documents set out below, the outline of an audit plan for 2016 and 2017 has been drafted, although the resources available to the service have not been finalised and this must shape the work that can be undertaken in practice. Management Team has agreed the principles and outline of this plan, but further input from directors and heads of service will also be necessary to shape it in more detail, to guide what is actually achievable and to identify management sponsorship. Input is now sought from the Audit and Governance Committee.
4. The Audit and Governance Committee's terms of reference require it to: monitor the operation of the council's corporate governance, risk management and internal control arrangements; review and approve the council's annual governance statement; and approve, but not direct, the annual internal audit plan. The committee's views on this plan will therefore be welcome.

Definition of internal auditing

5. "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
6. "The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

The Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2013

Relevant regulations

7. Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." *Regulation 5. (1)*

8. Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control … and (b) prepare an annual governance statement." *Regulation 6. (1)*

Accounts and Audit Regulations 2015

Internal audit work during 2015/16

9. In the context of the significant challenges currently facing the council, the Audit and Governance Committee and Management Team have previously agreed that the Internal Audit Service will not complete a full programme of work to support an overall opinion on the council's framework of governance, risk management and control for 2015/16. It was agreed that the Internal Audit Service would instead provide assurance only over the council's main financial systems as set out below, and support the Finance Service's work on key projects. This approach will enable no overall assurance to be given by the Internal Audit Service on the council's governance, risk management and control processes. However management's own assessment and the work of external regulators will inform the council's review of the effectiveness of its system of internal control and the annual governance statement that will be published in June 2016.

10. The Internal Audit Service will not complete a risk-based programme of work to support an overall opinion on the council's framework of governance, risk management and control for 2015/16 but will focus its assurance work solely on the council's centrally managed key financial systems:

    - The general financial ledger;
    - Cash and banking;
    - Accounts payable system;
    - Accounts receivable and debt management system;
    - Payroll;
    - Treasury management; and
    - VAT.

11. Work on the central accounts payable and payroll systems is almost complete, and work on treasury management, the general ledger and VAT system has begun; cash and banking will be reviewed once these audits are complete. Work on the accounts receivable and debt management system will start towards the financial year end and will continue into 2016/17.

Internal audit work during 2016/17

12. An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control will need to encompass the following:

    - Coverage of the key components of each part of the opinion. So it will be necessary to audit:
        - Governance;
        - Risk management; and
        - Control.
    - Sufficient coverage of the council's operations as a whole, so that a fair assessment may be made across the organisation.
    - Coverage of the controls that serve to mitigate the council's most significant risks to an acceptable level.
    - Coverage of the controls that operate most broadly to mitigate the council's most significant risks in the greatest number of individual instances.
    - Assessment of the actions being taken to develop improved controls in the areas of greatest unmitigated risk: those logged on the risk register.
    - Follow-up of the actions agreed by management to mitigate risks identified through the audit process.

13. The Internal Audit Service will also work with managers to analyse other areas of risk recorded on the risk register and develop additional action plans to address these. Whilst such work will inform the overall opinion, it will not be necessary to support the opinion, which could be formed without it.

14. Because the overall opinion covers a twelve month financial period, the evidence to support it must therefore relate to the controls in operation for that period. However the plan will be directed in the light of prior knowledge and earlier years' audit results, as well as follow-up work in the current year.

15. Where it is known that assurance will be provided to the council by another body (for example the Care Quality Commission or Ofsted), the Internal Audit Service will not duplicate work in that area but will take it into account if it is relevant to the overall opinion on governance, risk management and control.

16. A programme of work for 2016 and 2017 is set out in the table at the end of this document.

Other potential areas for audit work during 2016, 2017 and beyond

17. As has been noted above, further work will be necessary to scope the audit work in this plan, and the resources available to the Internal Audit Service have not yet been finalised. There are also a number of areas where management is intending to make control improvements during 2016 and 2017, and where assurance may be helpful as these improvements are made. The plan set out below will therefore need to be flexible and may be amended during the year, but any significant

amendments will be shared with the Audit and Governance Committee for its consideration.

18. The following areas may be added to the plan during 2016 and 2017, or could be considered for inclusion in following years' plans, subject to both audit resources and management teams' assurances that control improvements have been made:

    - Revised corporate performance monitoring following implementation of a new approach from April 2017;
    - Revised quality assurance systems for both adults' and children's social care case management;
    - Alignment of children's and adults' social care, and the transition of care users between them;
    - Compliance with revised operating policies arising from both the Care Act and in relation to children with special educational needs and disabilities;
    - Initial triage and resolution of social care cases by the Customer Access Service;
    - Provision of public health advice to the county's clinical commissioning groups;
    - The implementation and operation of the council's ICT new strategy;
    - Processing payments to suppliers of social services through Controcc, the finance module of Liquidlogic's social care software;
    - Delivery of the capital programme by services across the Programmes and Project Management, Corporate Commissioning and Community Services teams;
    - Highways asset management following the implementation of software provided by Symology;
    - Property asset management following the implementation of software provided by Technology Forge;
    - Property programme and project management supported by the implementation of Cora Project Vision software;
    - The operation of Oracle Financial's project and costing modules;
    - The waste management company service, following amendment to its governance arrangements and organisational structure.

Key documents

The council's corporate risk register

19. A corporate risk register has been drafted but the process supporting it is still being developed to ensure that it is robust and sustainable, and to ensure that the register is an adequate reflection of the organisation's most significant risks being addressed at a given point in time. In due course this will serve as an

active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and not yet under effective control.

20. It is relevant to the audit plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the council's most significant risks, and the progress being made in their implementation.

A log of the council's mitigated risks

21. Where risks have been mitigated, or are believed to have been so, they may not be recorded in the risk register and must be identified through other means, in particular through a sound understanding of the organisation and its operations. Where management understands controls to be in place over significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are indeed adequately designed and operating effectively.

22. A document is being developed within the Internal Audit Service that will seek to record significant areas of governance, risk and control across the council. This will log the matters that may never be identified as problems by any management team because they are deemed to be under adequate and effective control, and are therefore unlikely to appear in any risk register. It will therefore complement the risk registers prepared by the council's management teams. It will though, require input from management teams to ensure that it properly captures, at least in overview, the risks and controls across the council's normal business. The Internal Audit Service will update this on an on-going basis, and at least annually as part of its audit planning process.

23. This will never completely capture every possible risk and control, but is a means to assess the areas that could be included in the audit plan when read alongside the council's risk register.

The council's annual governance statement

24. In addition to setting out a definition of internal auditing, Public Sector Internal Audit Standards require the head of internal audit to "deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement." The annual governance statement will also be informed by other sources including management's own assurances regarding governance, risk management and control. Where the senior management team is aware that controls require strengthening and is working to achieve that improvement, additional assurance from the Internal Audit Service may not be helpful, but the annual governance statement will reflect management's own assurances. It is on this basis that internal audit work for 2015/16 has been restricted to the key financial systems.

The council's framework for governance, risk management and control

25. In light of the council's revised organisational structure and new corporate strategy, it is appropriate to reconsider the framework within which this work is set. A provisional framework is proposed below:

A framework for governance, risk management and control
Governance and democratic oversight corporate governance framework, democratic processes
Business effectiveness risk management, performance monitoring, organisational design working with other organisations
Service delivery children's, adult's, community, public health & wellbeing services, corporate commissioning, economic development, emergency planning
Service support programmes & project management, design & construction, communications, business systems, customer access
Business processes financial processes, investment, payroll, human resources, ICT, procurement, business continuity, health & safety

The work set out below is intended to obtain the evidence required to provide assurance over the council's key financial systems for 2015/16 and to draw an overall opinion for 2016/17, although it is likely that some elements of the work set out below will continue into 2017/18. Individual elements within the plan may be amended but, taken as a whole, the resulting plan should address the principles set out above.

Service area	Operational area of activity	Audit work	Planning principle
Governance and democratic oversight			
Corporate governance framework	Documentation of the council's governance arrangements	Review of the ownership, completeness and currency of documentation the council is required to hold, publicise and periodically review setting out its governance arrangements.	Key component of opinion
	Effective oversight of corporate governance by the Audit and Governance Committee	Assessment of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	Key component of opinion
Business effectiveness			
Risk management	Preparation and use of the corporate risk register	Assessment of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records.	Key component of opinion
Financial governance	Delivery of the council's financial strategy and budget reductions	Risk and control assessment of the measures in place to monitor and achieve planned budget reductions.	Controls to mitigate a significant risk
	Oversight of the Lancashire Pension Fund	Assessment of the governance framework to achieve corporate oversight by the council of the Fund, whose assets are owned by the council.	Controls to mitigate a significant risk
	Acting as accountable body for funding	Evaluation of the controls that manage the risks in taking on the role of accountable body, taking a sample of the most significant funding streams.	Coverage of controls across the organisation
Performance monitoring	Corporate performance monitoring	Support to management in establishing a revised framework for monitoring and managing achievement of the council's key strategies.	Support to management to improve controls

Service area	Operational area of activity	Audit work	Planning principle
Service delivery			
Children's services	Escalation of matters of strategic or political importance through to the Operations and Delivery management team and beyond if appropriate	Compliance testing of the escalation as appropriate of issues arising within individual caseloads or social care teams. This work could be replicated in other service areas but will be piloted here first.	Controls to mitigate a significant risk, and supporting work relating to risk management
	Identification of, and responses to, external feedback on children's services and schools	Assessment of the potential sources of feedback and operational services' responses to these including escalation of the information to senior management.	Controls to mitigate a significant risk
	Data held on LCS (Lancashire Children's Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LCS.	Controls to mitigate a significant risk
	Oversight of schools' financial management	Risk and control evaluation of the arrangements to oversee schools' financial management.	Coverage of controls across the organisation
Adults' services	Data held on LAS (Lancashire Adult Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LAS.	Controls to mitigate a significant risk
	Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Risk and control evaluation of supervision and support arrangements under the new team management arrangements, with full compliance testing.	Controls to mitigate significant risks in a number of individual instances
	Case management: assignment of officers to cases	Risk and control evaluation of assignment of cases and workloads, with compliance testing following implementation of new team working arrangements.	Controls to mitigate significant risks in a number of individual instances
	Case management: timely completion of action to statutory and advisory deadlines	Compliance testing of the timeliness of case management action against the deadlines set in legislation and the council's policies.	Controls to mitigate significant risks in a number of individual instances
	Delegation of responsibilities to accredited social workers.	Compliance testing of the accreditations awarded to social workers to facilitate their taking on enhanced responsibilities for case management decisions.	Coverage of controls across the organisation

Service area	Operational area of activity	Audit work	Planning principle
Public health & wellbeing services	Commissioning and oversight of commissioned public health service provision	Risk and control evaluation of joint working with the NHS and voluntary sector to provide services within Lancashire.	Coverage of controls across the organisation
	Operation of the Health and Wellbeing Board	Assessment of the constitution and operation of the Board against professional guidance, local requirements and current best practice,	Coverage of controls across the organisation
with Corporate commissioning	Operation of the Better Care Fund	including assessment of the governance arrangements for the council's use of the Better Care Fund.	Coverage of controls across the organisation
Corporate commissioning	Commissioning, design and monitoring of the capital programme	Risk and control evaluation of the revised procedures to oversee the whole capital programme, including elements managed by the council for the Lancashire Economic Partnership.	Controls to mitigate a significant risk
	Provision of school places	Risk and control evaluation of the allocation of school places.	Coverage of controls across the organisation
	Operation of the Premises Compliance Team in strategic premises management	Assessment of risk and controls in relation to the council's property assets.	Coverage of controls across the organisation
Economic development	Lancashire Economic Partnership: governance and accountability	Assessment of the constitution and operation of the Partnership against guidance and local requirements, to ensure the success of the partnership and the effective use of its individual funding streams (Lancashire Enterprise Zone, City Deal, Boost Business Lancashire, Growing Places Fund, Growth Deal Programme).	Controls to mitigate a significant risk
		Establish and assess the assurance framework for the programme, including assurance available from other areas of audit work and any work by other organisations.	Maximising the value of audit work in other control areas
Emergency planning	Adequacy of the plans in place to address emergencies and civil contingencies	Risk and control evaluation of the adequacy of emergency planning, including involvement of appropriate partners and adequacy of testing.	Controls to mitigate a significant risk

Service area	Operational area of activity	Audit work	Planning principle
Pension fund administration	Administration of the fund to serve its members	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate significant risks in a number of individual instances
	Accounting for the fund	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate a significant risk
	Fund investment management	Assessment with management of the assurance framework and available assurance over the Fund's investments.	Controls to mitigate a significant risk
Service support			
Business systems	Monitoring of the contract with BTLS	Risk and control evaluation of contract monitoring, with compliance testing.	Coverage of controls across the organisation
Business processes			
Financial processes	Treasury management	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Oracle general ledger	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Accounts receivable and debt management: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Accounts receivable and debt management: feeder system controls	Risk and control evaluation of the controls in place, with annual compliance testing of a sample of feeder systems.	Controls to mitigate a significant risk
	Cash and banking: central controls including checks over completeness and compliance in other locations	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Oversight of payroll payments	Risk and control evaluation of the council's monitoring and oversight of BTLS's processes, with annual compliance testing.	Controls to mitigate a significant risk

Service area	Operational area of activity	Audit work	Planning principle
	Payroll payments processed by BTLS	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Accounts payable: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	VAT	Risk and control evaluation of the controls in place, with periodic compliance testing.	Coverage of controls across the organisation
Investment	Implementation of the treasury management strategy, including refinancing the council's debt	Compliance testing of operational policies and procedures, and work with management to understand the nature of the representations being given to lenders and credit rating agencies.	Controls to mitigate a significant risk
	Compliance with borrowing limits and any other restrictions on investment	Evaluation of the in-service compliance programme and management's responses to its findings.	Controls to mitigate a significant risk
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders	Risk and control evaluation with annual compliance testing.	Controls to mitigate a significant risk
Payroll processing	Effectiveness of inputs to the system: the inputs required and how they are processed	Risk and control evaluation focussed on system inputs.	Controls to mitigate significant risks in a number of individual instances
	Processing of payments by BTLS, using information supplied by LCC	Risk and control evaluation, with annual compliance testing.	Controls to mitigate significant risks in a number of individual instances
Human resources (and finance)	Amendments to the council's establishment: completeness, accuracy and currency of records	Risk and control evaluation to ensure that the staff establishment, hierarchies and budgets are aligned, with full compliance testing.	Controls to mitigate a significant risk
ICT	General IT controls	External advice is required, and discussions with BTLS, to properly assess the ICT audit work that is appropriate and achievable.	Controls to mitigate significant risks
	IT security and continuity planning		
	Application controls including the new identity management system		

Service area	Operational area of activity	Audit work	Planning principle
All	Completion of agreed action plans	Follow-up of work initiated during 2016/17. Action plans agreed in respect of earlier audit periods will not be pursued.	Follow-up as required by professional standards
Various funding streams	Various: predominantly relating to funding for the former Environment Directorate, plus the Working Together with Families Programme	Work must be undertaken to meet EU and central government departments' grant funding requirements where funding is given on condition that the Internal Audit Service provides assurance to these bodies that their funding has been spent as intended.	Requirement to comply with funding terms

Report to the Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected:
None

Risk and Opportunity Register
(Appendices 'A', 'B' and 'C' refer)

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Executive Summary

At its meeting hold on 28 September 2015 the Committee received a report providing an update in relation to a number of key issues that had started to emerge in 2014/15 which were also relevant to the External Auditor's Value for Money conclusion.

It was reported in relation to risk management that whilst risk management happens "in practice" there was a need for the Council to embed a systematic approach to identifying strategic risks and opportunities. It was therefore reported that a proposed corporate approach to reporting in relation to these issues was being developed and would be provided to the Committee for consultation.

This report sets out the proposed approach and presents at Appendix 'A' a draft Risk and Opportunity Register for the Committee to consider and comment upon.

Recommendation

The Committee is asked to comment upon:

1. the draft Risk and Opportunity Register at Appendix 'A'; and

2. the proposed approach to reporting on risk and opportunities set out in Appendix 'B'.

Background and Advice

At its meeting held on 30 June 2015 the Committee approved the Council's Annual Governance Statement (AGS) for 2014/15. The AGS noted a number of emerging governance issues including the need to embed a systemic approach to identifying and managing strategic risks and opportunities.

In this regard Management Team engaged Grant Thornton to facilitate a workshop for the purposes of identifying strengths and weaknesses in current practice;

Lancashire County Council

consider the trend and current pitfalls across the sector; identify the key strategic risks facing the Council and consider the mitigation measures already in place or which should be introduced; and consider the practical next steps to formalise arrangements.

The workshop identified that whilst risk management happens "in practice" and that all major decisions are based on an appropriate analysis of risks and opportunities, effectively protecting the public, the lack of a clear and systematic corporate approach is a weakness. It also identified that Elected Members do not receive appropriate risk management information and training, that risks relating to key partnerships are not fully understood or managed, and that a risk register should be regularly reviewed and communicated to all relevant parties.

It was reported that a Risk and Opportunity map was therefore in draft and work in hand to set the right governance structures, assign clear responsibilities and roles, agree the corporate approach and provide appropriate training.

It was proposed to classify risks and opportunities on a "PESTLEDO" basis:

- **P**olitical – government or local policy commitments
- **E**conomic – meeting financial commitments, budgetary pressures etc
- **S**ocial – Changes in socio-economic trends
- **T**echnological – the capacity to deal with the pace of technological change, the use of technology to manage demand
- **L**egislative – changes in the law
- **E**nvironmental – Environmental consequences of progressing the Council's objectives
- **D**emographic – demographic changes in the locality
- **O**rganisational – internal risks not imposed by the external environment

A draft Risk and Opportunity Register based on these principles is at Appendix 'A'. The draft Register has been developed by Management Team and relevant directors/heads of service, providing a brief, high level description of risks and opportunities along with the current controls and further proposed mitigating actions. The Register also includes "risk scores" for both before and after the application of mitigating actions based on the scoring matrix contained in Appendix 'B'.

At its meeting held on 28 September 2015 it was reported to the Committee that a Risk Management intranet site was under development and it was proposed that the corporate approach to reporting on risk and opportunity should be on the basis that Risk and Opportunity reports would be provided to Management Team on a quarterly basis, following which the reports would then go to the Cabinet Committee for Performance Improvement and then to the Audit and Governance Committee.

An indicative timetable for the proposed reporting framework during 2016/17 is contained in Appendix 'B'.

In agenda item 9 the Committee is also asked to approve an Internal Audit Plan for 2016/17. The report notes that the processes supporting the Risk and Opportunity Register is still being developed to ensure that the register is robust and sustainable and to ensure that the register is an adequate reflection of the Council's most significant risks being addressed at a given point in time. In due course this will serve as an active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and therefore not yet under effective control. The draft Internal Audit Plan itself includes the preparation and use of the Risk and Opportunity Register as a key component of an overall assurance opinion.

The report also notes that the Risk and Opportunity Register is relevant to the draft Audit Plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the Council's most significant risks and the progress being made in their implementation. Where risks have been mitigated, or are believed to have been so, they may not then be recorded in the Risk and Opportunity Register and must then be identified through other means.

Where management understands controls to be in place around significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are adequately designed and operating effectively.

A risk and control framework proposed by the Chief Internal Auditor is at Appendix 'C'. The objectives of the framework are as follows:

- Regularly identify the most significant unmitigated risks to the organisation.
- Assess the impact and likelihood of the most significant unmitigated risks realistically and with a reasonable degree of accuracy.
- Identify and implement appropriate mitigating actions – tolerate, treat, transfer, terminate (or take the opportunity) – at the right level of ownership to be effective, at minimum cost.
- Accept only the risks the organisation intends to and has the appetite for.
- Regularly present a systematic summary of the most significant unmitigated risks to the organisation to the appropriate committee and into the public domain.
- Achieve good corporate governance through effective oversight of the Executive Leadership and senior officers, and their accountability to the Council as a whole.

Based on the principles set out in the risk and control framework at Appendix 'C' and having regard to the risk scoring principles set out in Appendix 'B' the Committee are asked to comment on the draft Risk and Opportunity Register and also on the proposed reporting framework and timetable at Appendix 'B'.

Implications:

This item has the following implications, as indicated:

Risk management

As set out in the report.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Corporate Risk & Opportunity Register Q3 2015

Appendix A

Risk Identification Number	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	Failure to implement fully the councils medioum term financial strategy including the delivery of planned budget reductions	Economic	Financial Savings not achieved resulting in in-year overspends with pressure on following year budget and reserves depleted more quickly than planned. Reductions in service and/or drop in quality of delivery leading to JR and damage to Council's reputation. New legislative requirements not being met and uncertainty over being able to deliver and/or implement future large projects. Potential for infrastructure to deteriorate.	Monthly budget monitoring processes for Heads of Service and Directors with particular focus on agreed savings delivery. Ensure key programmes of activity (particularly linked to savings / downsizing) are adequately resourced. Quarterly Money Matters budget monitoring reports, MTFS, reserves and Treasury Management reports presented to members (includes capital). Management Team actions to monitor key areas of expenditure and consider remedial courses of action to address budgetary pressures. Robust Medium Term Financial Strategy and Plan, updated to reflect variations to resource and demand assumptions. Reserves regularly monitored and reviewed. Resources allocated to Base Budget Review. Rebalance budget savings via an ongoing risk assessment.	25	•Development of recommendations (Base Budget Savings Options and from scheduled Zero Based Review activity) from the Base Budget Service Review to be considered by members. •Appropriate consultation to take place. •Improve commercial and financial acumen. •Continuously revalidate budget assumptions.	16	Section 151 Officer	As time progresses the risk to some extent reduces. However, the risk cannot be fully mitigated until all the necessary enabling decisions have been taken and the relevant budget options have been realised.
CR2	Risk to the ongoing longer-term Financial Viability of the County Council	Economic/ Political/Social	Problems stored up for the future as a combination of delivery isues in CR1 and further national funding reductions causing minimum reserve position not to be maintained with the risk of not being able to set a balanced legal budget in future years.	Base Budget Review has identified the risk of the County Council not being able to meet statutory obligations by 2018/19. The actual timing of when this situation may occur will be identified from the various monitoring and review process outlined in CR1 above	25	•Zero Based Review activity will determine the scope for additional savings in all remaining services within the County Council (ongoing). •Links to Combined Authority work including Healthier Lancashire programme with the NHS as to any opportunities / additional pressures (ongoing). •Lobbying – Treasury and DCLG by utilising ongoing existing networks MP's / Members , LGA, CCN, SCT (ongoing) •Funding Model – Review of borrowing Strategy & Treasury Management Strategy (Q1 2016)	25	MT	Level
CR3	Failure to deliver joint service between Lancashire Pensions and LPFA, due to inability to agree terms resulting in some abortive costs, and the non delivery of a flagship project within the LGPS reform agenda.	Economic	Reputational damage as a result of the failure of a major pathfinder project. Need to find another like minded partner, or partners to work with as part of the requirement to submit pooling proposals for pension fund assets to the Government. This would be a very time pressured exercise, and limited or no choices may be available. Potential for reduced investment returns could occur, certainty of a reduction in the potential investment universe of illiquid assets, negatively impacting on the ability to deliver the investment strategy.	Programme in place. Meetings taking place covering each project plan. Appropriate legal and technical advice for all parties has been secured. Regular programmes of information briefings are in place for elected members. Additional project management resource put in place within the Partnership. A proposed VPN connection between the offices with relevant firewalling has been ordered.	12	•Additional legal resource allocated internally. •Early establishment of 'client side' role to provide clear leadership for the council's input and provide additional technical expertise	6	Director of Governance, Finance and Public Services	↓ Downwards. As time progresses the risk to some extent reduces. However, the risk cannot be fully mitigated until all the necessary enabling decisions have been taken and the relevant legal agreements put in place.
CR4	Delivering organisational transformation including capacity and resilience	Organisational	The failure to clearly implement the new corporate strategy that sets out our vision, aims and priorities could result in a lack of purpose, direction and have an impact on service delivery and produce an adverse external audit report. The new structure that seeks to provide the ability to join up our services in a new way may not be fit for purpose. Ineffective employee engagement and buy in. A fall in staff morale could increase sickness absence and stress. Loss of knowledge and skills due to turnover puts demand on remaining staff which can expose the council to key person dependency and the risk of poor resilience.	A new corporate strategy has been developed based on need (New Service Planning Areas have been identified) and has been consulted upon. Phase 2 of the transformation process has been stopped. As part of the base budget review process options for service delivery and redesign have been developed including proposals to stop some services. Management Team approval of all new appointments and cessation of temporary staff contracts. Senior Management Development programme implemented. Positive employee communication and engagement. Wellbeing initiatives and support for managers and employees. Introduced a new scheme of delegation for heads of service.	12	•The corporate strategy is being amended to reflect the consultation outcomes. • Interim structures to reflect the base budget review options are being developed. •Property strategy and accommodation review being progressed. • Independent challenge.	9	MT	↓ Downwards

Risk Identification Number	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR5	Failure to adequately protect and safeguard children	Social	Children are put at risk of harm.	MASH hub. Serious incident reporting. Quarterly safeguarding report. SCR learning shared. Case file audits. Multi Agency inspections. Supervision with HOS.	25	• Post Improvement Inspection Board with Independent Chair appointed. •Post Inspection Improvement Plan. •Senior management input into each of the 3 Children Social Care Districts. • Review of all CiN cases using internal and external capacity. • Social Work Recruitment Strategy. •Peer Challenge. Stephen Hart audit exercise. • Newtons review of pathways.	16	Director of Children's Services	SW recruitment has improved. CiN case review has begun. Senior managers are now working in districts. Independent Board Chair appointed.
CR6	Failure to comply with statutory requirements and duties relating to children looked after, children in need and children leaving care.	Legal/Political	LA is legally and possibly financially liable, judicial review. Further OFSTED intervention.	Corporate legal oversight. Quarterly safeguarding report. Serious incident reporting. SCR learning. Peer review and challenge. Stronger management oversight in Districts. Risk score. Again given OFSTED this is almost certainly the highest score.	25	•Weekly compliance recording of Strategy Meetings. •Enhanced quality assurance reporting. •Back to basics SW practice training. •Performance clinics.	16	Director of Children's Services	Compliance reporting shows that multi agency meetings were at 100% in week ending 11 Dec.
CR7	Failure to recruit and retain experienced Social Work staff	Organisational	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	Vacancy monitoring. Recruitment strategy. Quarterly safeguarding report.	20	•Additional funding envelope. •Enhanced recruiting. • Weekly monitoring of SW workforce position. • External agency contract to look at CiN cases and work following MASH. • Newtons pathway review.	16	Director of Children's Services	Improving SW recruitment is now at the levels with in the original funding envelope prior to the £5m and recruitment is continuing.
CR8	Reputational damage and risk of Direct Intervention by DFE	Reputational	DFE manages services directly and removes them from the LA. Commission arrangements brought in.	Safeguarding and Audit arrangements. Direct management oversight of services.	20	• Post Improvement Inspection Board with Independent Chair appointed. • Post Inspection Improvement Plan. • Senior management input into each of the 3 Children Social Care Districts. • Review of all CiN cases using internal and external capacity. • Social Work Recruitment Strategy. Peer Challenge. Stephen Hart audit exercise. Newtons review of pathways.	12	Director of Children's Services	Positive given feedback from OFSTED and appointment of Independent a Chair and usage of a Stephen Hart.
CR9	Failure to Respond effectively to a major civil emergency and play our part in the strategic co-ordination	Organisational	Effect on essential services and welfare of the public throughout the County. Through failure to comply with CCA and industrial based regulations leading to a loss of reputation, impacts on community and businesses and subsequent legal challenge. Internally, increased loss of capability for delivery of LCC services.	Emergency Plans. Business Continuity Plans. Rest centres policy and procedures. Regular training and exercises. The Emergency Planning & Resilience Service has conducted an authority wide risk assessment to identify risks and actions that need to be taken to ensure that resources are focussed on those risks which have a high likelihood and a high level of impact. An authority wide plan is in production to detail the co-ordination of the response but there will be occasions when local or small scale incidents affect only a few services/buildings. In these circumstances it will be expected that local management teams will respond accordingly and manage the impacts to local service delivery. To do this, local service level response & resilience plans have and are being developed by Heads of Service which link to the authority wide plan.	4	•Redeveloping corporate and local plans to incorporate current (and future) changes to LCC business model. •Move from purely business continuity plans at local level to resilience plans (incorporating business continuity and emergency response as appropriate). •Production of specific LCC plans to mitigate identified high risks eg. Pandemic flu, loss of telecoms.	4	Head of Emergency Planning & Resilience	↓ Downwards. However, the risk can never be fully mitigated.

Risk Identification Number	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR10	Manage debt recovery	Economic	Failure to recover debts will have a direct impact on the County Council revenue budget, as income will not have been achieved. This could result in higher levels of written off debts which again will impact on revenue budgets and will not be good for the reputation of the County Council.	The income and debt project (including an improved IT system) aims to introduce a consistent and efficient way of dealing with invoices and debt management across the county council. A new Income and Debt Management Policy has been agreed and implemented from June 2015 onwards. The project is now in it's evaluation stage with further recommendations and controls to be suggested to further improve debt collection levels for the County Council.	6	•Detailed review underway to review each individual long term and high value debtor. Case management report for each debtor. This will include a review of the bad debt provision which currently mitigates the revenue impact of writing off some debt. 31st January 2016. • A new charging policy is being developed (social care) This has included some benchmarking to compare the charges LCC makes to it's service users •The starting point for creating a debtor is the completion of the financial assessment. A full process review has been completed shortening the time between a care needs assessment and a financial assessment thus reducing complaints etc. •Fortnightly Debt "progress" meetings to monitor the ongoing debt levels. •Care Debt Board meets quarterly to review the overall care debt position. Our policy does not allow debt management team to engage legal services or our Debt Collection Agency to chase care debt, and we are therefore proposing a revised policy to be considered by Adults Services, Management Team and Members	4	Section 151 Officer	↓Generally downwards as the new IT system is giving us new information which allows us to target our debt recovery. However, an element that is going in an upwards direction is the increased demand levels for Care Debt which will increase volumes of debts.
CR11	Non-compliance with EU procurement law and the council's procurement rules	Economic	Failure to obtain best value for money in the procurement of goods, works and services, leading to a poor Value for Money opinion from the council's external auditor. Increased risk of legal challenge to the outcome of procurement exercises, and the award of financial damages to claimants who successfully challenge procurement decisions.	The establishment of a Service Improvement Plan (SIP)on the transfer of the service back to the county council in 2014 aimed to develop and improve procurement related activity across the council. The SIP includes the approval of a Procurement Strategy, the establishment of a Procurement Board, and the development of a contracts register for the county council. Progress made against the plan has been monitored through quarterly reports to the Cabinet Committee for Performance Improvement (CCPI).	12	Taking forward the actions included within the SIP, including: • New service management team in place; • Re-establishment of the Procurement Board at director level to reflect the current council structure; • Procurement training for Heads of Service/Directors; • Review and update of the contracts register to highlight any potential gaps in the contract information; • Refresh of individual service procurement plans; • Reintroduction of more timely management reviews of procurement activity and liaison meetings with operational Heads of service and managers; • Closer working relationship with Legal Services, including the introduction of weekly Legal Services Clinics.	8	Head of Procurement	↓ Downwards.
CR12	Failure to implement/maintain systems that produce effective management information	Organisational	Ineffective collection, collation and input of data Ineffective use of business intelligence, resulting in the inability to identify and respond to changing trends and inform strategic decisions. Impact on strategic planning, understanding and management demand e.g. around demographics and ageing population profile Ineffective reporting arrangements	Information management strategy. Data Quality processes. Oracle. Local Information Systems. Corporate performance information. JSNA and other needs assessments	15	•External support to focus on Childrens Services data issues. Introduction of new governance arrangements for childrens services •Introduce a new performance management framework that is aligned to new corporate strategy •Agree performance, financial data and intelligence required for all levels within the County Council. Agree milestones and metrics.	9	MT	↓ Downwards

Risk Identification Number	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR13	Robust Information Governance Arrangements	Organisational	Loss of control of personal data and non compliance with Data Protection Act and other legislation. Potential reputational risk and possible financial impact via financial penalties. Issues arising from data sharing between organisations and employees taking on new roles.	IG and ICT security policies and procedures including assessment and coordination of serious information governance incidents. Robust governance, management and monitoring arrangements. Robust technical system controls and audit mechanisms. Staff training and awareness training. ICO external audit and response to recommendations	15	•IG E-Learning package, realignment of responsibilities in response to ICO audit, training for IG team, CIGG, annual update of policies, SIRO, IG Team and Caldicott Guardian	9	SIRO	↓ Downwards.
CR14	Maintaining effective Corporate Governance arrangements	Organisational	Inability to maintain effective governance arrangements including members standards and the constitution	Reviewing elements of the constitution and governance arrangements and reporting proposals to the Political Governance Working Group, Audit & Governance Committee and full Council. Member training. Reviewing existing controls. New scheme of delegation. Revised Corporate Governance Framework adopted and reported to members	12	•Further review of constitution. Improved controls especially around Risk Management. •Consideration of Independent members on A&G Committee. •New Internal Audit Plan developed and implemented. •Review new scheme of delegation	8	Director of Governance, Finance and Public Services	↓ Downwards.
CR15	Delivering new waste management arrangements	Environmental	Consequences arising from the Council's decision to terminate the waste PFI contract with Global Renewables Ltd in July 2014. As a result of this decision the Council took ownership of the waste recovery parks and operating company (GRLOL).	Combined LCC/GRLOL management team responsible for governance and decision making of the operating company. Board of directors of GRLOL made up of elected members. Joint monthly Waste Service budget review.	12	•Budget option proposal to reduce complexity and scale of operational processes and downsize company. • Development of medium term company transformation strategy. •Proposed market testing and procurement activity to determine potential market opportunities for reconfiguring the entirety of the council's waste services. •Development of long term waste service strategy.	9	Head of Waste Management	↓ Generally downwards. Implementation of company transformation strategy will ultimately reduce risk profile significantly, however, it should be noted that the transformation process itself may increase risks in the first instance. Development and implementation of longer term strategy will carry its own inherent risks.
CR16	Management of the County Councils Assets	Organisational	Failure to maintain council owned assets and buildings.	Manage health and safety risks of customers and staff and ensure budgets are managed effectively to maintain assets to a satisfactory standard. Consider and manage risks associated with redundant properties. Planned maintenance approach. Risk assessments and regular H&S inspections. Presently undertaken by various operational service areas	9	•Asset Management Strategy and accommodation review	6	Head of Asset Management	↓ Downwards as long as the, shortly to be formed, Premises Compliance Team is effective in its efforts to improve strategic premises management activities
CR17	Provide customer access to all Council services	Social	Failure to respond to customer contact in respect of 26 plus services (including two WLBC services) resulting in the following:- Increase wait times and abandoned calls, which will in turn result in complaints and the escalation of issues to Members, Police and/or other interested parties; Increase the risk of child protection and/ or adult safeguarding issues being delayed, including emergency calls during evening and at weekends; Affect the delivery of politically sensitive services, including Highways and Blue Badge, resulting in further escalations to Members; Increase the risk of legislative issues being delayed, including West Lancashire Revenues and Benefits and Registration services; Affect the delivery of income generating services, including Pensions and West Lancashire Revenues and Benefits services. This is turn could affect the current negotiation of new external business, which is due to bring in additional income; Increase the amount of repeat calls, placing further pressure on the service and increasing the risks above; Affect our delivery partners, including the Police and NHS, having a negative impact on these relationships.	The Customer Access Service is the first point of contact from citizens , partners and other professionals across Lancashire. Opening times are 8.00 am to 6.00 pm within Customer Contact Centre and 8am – 8pm Mon-Fri and 9am – 7pm Sat & Sun within CAS Social Care Service. We handle one million plus calls and 200 thousand plus emails annually EDT cover social care emergency calls outside CAS SC opening hrs.	12	•We have a robust business continuity plan in place which is regularly tested. •We have a separate site with limited seating to accommodate approximately 18 staff, therefore, this is useful during short periods of time, e.g. heavy snowfall, but would be less useful if the main base in Accrington was completely inaccessible as we would be unable to cover full range of services.	8	Head of Customer Access Service	↓ Downwards. We are in the final stages of procuring a new telephony platform which is web based, meaning our staff would be able to log in from various sites. It is hoped the replacement platform will be fully installed by June 2016.

Risk Identification Number	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR18	Non-compliance with statutory responsibilities of safeguarding, resulting in adults with care and support needs being put at risk of abuse or neglect.	Legal	Adults with care and support needs may experience or be at risk of experiencing abuse or neglect and will not be safeguarded or protected, leaving them at risk of significant harm. The risk to the council is that we will not meet our obligations under the Care Act. The Safeguarding adult's board with core membership from the Police, NHS and other relevant bodies would not be able to fulfil their duties. Relevant multi agency partners may not share information or corporately work to protect adults at risk of experiencing abuse or neglect. Other statutory stakeholders may not work to prevent people experiencing abuse or neglect. Safeguarding adult's reviews may not be undertaken in order to share the learning about failures to safeguard people who experience abuse or neglect. Multi agencies may not work together. Independent mental capacity advocates to represent and support adults subject to safeguarding enquiries may not be arranged. Adults who have substantial difficulty in being involved and representing their views could be impacted. The local authority would be at risk of legal challenge, media attention, complaint and litigation. Prevention of risk of further harm of individuals and communities may not occur. Sharing information from key organisation to see the holistic picture will be impacted.	The safeguarding adults board meet up every 2 months and there are a number of safeguarding sub groups. The multi agency safeguarding hub intake service, receives all alerts and the Safeguarding Enquiries Service fulfil the statutory responsibilities to make enquires or request others to undertake this role to safeguard individuals in communities and organisations, including secure settings. An Advocacy Contract is in place to fulfil the responsibilities.	15	•Management overview of safeguarding enquiries, spot checks, and auditing around safeguarding decisions. •Chairing multi agency safeguarding meetings, and sub groups of the board, for example, area leadership groups, safeguarding training groups. •Work with Pan Lancashire Safeguarding which incorporates other local authorities. •Raising awareness of safeguarding by attendance at provider forums. •Liaising with NHS Trust and CCG Partners. Supporting LCFT in safeguarding. •Supporting the quality team around the quality of safeguarding alerts. •Attendance at Mappa, Asbrac and Marac steering groups. •Joint working with the Police around domestic violence, forced marriage, honour based violence, human trafficking and female gentile mutilation. Supervision of staff, CPD and learning sessions. Learning from serious case reviews. Lado and DBS checks. Effective record keeping and the addressing of any issues with staff.	10	Director of Adult services	↓ Downwards.
CR19	Residential and Nursing Care market in Lancashire	Legal	Failure to comply with the care act regarding appropriate fees for residential and nursing care, ultimately leading to judicial review of our fee setting process.	2015/16 rates were issued to suppliers for consultation during 2014/15. Response was poor but no objections were raised.	12	•A project to investigate the current cost of care in relation to future rate setting in the sector is underway.	9	Director of Commissioning	Neutral due to recent introduction of the Care Act and the market adjusting to new legislation. Continued pressure on fees within the industry could lead legal cases and increased risk of challenge within Lancashire.
CR20	Transforming Care (Winterbourne)- the accelerated discharge of the population of adults with a Learning Disability from secure hospital in-patient beds into community houses	Economic/Political/Social	Increased pressure on the adult social care budget. Resettlement from hospital to community health and social care packages shifts the funding responsibiilty from soley NHS to a shared responsibilty between CCG's and LA's to fund these high cost intensive health and social care packages. LCC may not be able to afford these new packages of care in the current financial climate. There is a National Plan to facilitate discharge therefore there is a reputational and political risk in not achieving as Lancashire is identified as a National Fask Track programme for this work due to the high number of Lancashire residents currently in in-patients LD hospitals. The closure of Calderstones hospital is part of this national plan. Failure to agree locally a resonable figure for a dowry thats is planned to follow a person from hospital (NHS) to LA's is a further financial risk.	There is a governance structure for the Fast Track programme through the Fast Track Steering Group with representation from LCC Director Adult Social Care and HoS Commissioning working alongside SRO's from NHS and CCG's in order to achieve agreement on financial issues including the dowry and any future agreement for a pooled budget. There are identified workstreams each with a defined action plan with leads identified from commissioners across Lancs. Workstreams are monitored by the Steering group in addition to oversight by NHS England. The trajectory for possible discharge Sept 15- Mar 19 is to be carefully monitored so appropriate development and procurement of suitable housing and care can be planned for.	16	•Improved engagement with procurement collegues to ensure due process is followed operationally in meeting the needs of this population. •Lancashire's Fast track plan identifies the implementaion of a revised model of care for peolpe with LD improving crisis support through multi-disciplinary teams. •This approch is aimed at reducing admissions and supporting providers to maintain a persons tenure in their chosen house rather than re-enter hospital. •The plan commits to securing improved and alternate care and housing solutions for this population with the aim of creating shared tenancies with back ground support, rather than the current single tenancy model currently used, which will be more cost effective. There are plans to stimulate the provider market to inform inovative solutions to providing for these peoples	12	Director of Adult Services	↑the direction of travel is increased as these are new service users entering the social care system from the NHS, the risk is constant from a financial perspective as the cost will be high and require providing for life. (although there are plans to mitigate costs through a dowry system and improved commissioning solutions)

Risk Identification Number	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR21	Service user/Customer risk associated with the inability to influence behaviour change in demand and expectations continue to rise	Reputational	Demand and expectations continue to rise against a backdrop of reduced resources, thus leading to service failure and an increase in complaints. Failure to integrate health and social care to reduce pressures on demand and expectations as a result of ageing population.	Consultation and engagement with service users and customers. Co-ordination of communications. Changes and impacts communicated to stakeholders. Impact assessments. Alternative delivery options being explored as part of base budget review option development. Learning for complaints and oversight at CCPI.	16	•Alternative delivery options being explored as part of base budget review option development	12	MT	↓ Downwards.
CR22	Coroner's Service: Lack of adequate mortuary provision to deal with a mass fatality situation. Increased workload with regards to deaths associated with a DoLS order. Renegotiation of Coroner's terms and conditions of Service. Reduction in the number of Pathologists willing and able to carry out post mortems. Lack of control over expenditure in coronial areas where we are not the relevant Authority but make a significant contribution towards the costs of running the service	Legal	Mortuary full, nowhere to hold bodies of the deceased prior to Post Mortem resulting in delays to funerals and additional distress to bereaved families. Increased workload due to DoLS may impact on ability to list inquests within the required timescales which would then be included in the annual statistics and be brought to the attention of the Chief Coroner. Impact on budget with regards to renegotiation of Coroner's terms and conditions of service. Increased budget pressure where expenditure is higher than forecast	Use of Assistant Coroners to sign off routine paperwork and short inquests helping to reduce back log re listings. Mechanism in place to encourage Funeral Directors to collect bodies of the deceased in a timely manner reducing the strain on the mortuary. Regular reviews in place with other relevant Authorities	16	•Looking at the possibility of introducing CT post mortems to reduce the reliance on pathologists and to help speed up the process. •Consideration of a new cold pathology site with the provision of a 200 bay mortuary that could also be used in the event of mass fatalities. •Seeking guidance from JNC for Coroners and Chief Coroner in relation to any re negotiation of Coroner's terms and conditions of service. •Additional funding secured to help with DoLS process.	9	Director of Governance, Finance and Public Services	↓ Downwards.
CR23	Failure to maintain adequate financial resources to be able to fund self-insured losses as and when they arise	Economic	Adequate financial resources are not held in Provisions and Reserves to be able to pay claims and fund losses when they fall due to be met.	The level of the financial resources is monitored annually, with consideration being given to both payments out during the year and outstanding liabilities for claims received during the year. Additional funding to be made available as necessary.	12	•A professional actuarial evaluation of the current position has been completed in Summer 2015, and it is recommended that the position should be reviewed periodically by the same actuary to ensure that the funding continues to be adequate.	6	Section 151 Officer	↓Downwards, primarily because the work done by the professional actuary has helped to establish the level of funding required.
Opportunity Identification Number	Opportunity Description	Opportunity Type	Possible Benefits	Progress to date	Opportunity Score	Maximising Actions	Residual Opportunity Score	Opportunity Owner	Direction of Travel
C01	Establishing a new model for public service delivery in Lancashire	Political	The establishment of a Lancashire Combined Authority and securing a devolution deal with central government. A Combined Authority is an accountable body in its own right – this means it is a single point of decision making on agreed functions (quicker and simpler decisions); has powers delegated to it from Government and the individual local authorities (subject to local discussion and determination); can hold substantial amounts of Government and European funding. In relation to transport, greater co-operation will allow improvements to the region's public transport network.	Lancashire Leaders to formally take proposals for a new model (in principle) to their authorities. Briefings for County Council members. Progression of work streams.	16	•Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government.	12	Chief Executive	↑ Upwards
CO2	Delivering economic growth	Economic	Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully secured new resources for Lancashire to support job and business creation, housing growth and the delivery of strategic transport infrastructure linking to drive economic growth and regeneration, linking residents and businesses with economic opportunities.	Lancashire Enterprise Partnership has secured almost £1 billion of national resources to deliver a transformational programme of economic growth which see the delivery of new jobs, business and housing growth and strategic transport infrastructure. Key programmes/projects secured include the Preston, South Ribble and Lancashire City Deal, Growth Deal, three Enterprise Zones, Growing Places Funding, Boost Business Lancashire and Superfast Broadband	16	•Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government to ensure national resources to support economic growth and regeneration are secured. •Maximise the support from key local and national public and private sector stakeholders outside of the County Council	12	Director of Economic Development	↑ Upwards

Risk Identification Number	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CO3	Opportunities through delivering the corporate strategy and property strategy	Economic/Social	This strategy seeks to ensure we continue to meet the immediate needs of our communities while shaping the council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. It sets out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire. The strategy will help to ensure that we deliver on the following stratergic outcomes: - To live a healthy life - To live in a decent home in a good environment - To have employment that provides an income that allows full participation in society	Draft strategy considered by Cabinet on 26 November and ratified by Full Council on 17th December	16	•Use the strategy and associated evidence base to guide our decision making and as the overarching framework for planning interventions which will meet the needs of communities	12	MT	↑ Upwards
CO4	Health and Social Care Integration	Organisational	The principle of the separate organisations working together to align plans, strategies and budgets will involve the development of new delivery models and ways of working, to avoid duplication and focus activity where it is needed, recognising that current models of service delivery are unsustainable. Integration would provide the best opportunity to minimise the impact of funding reductions as well as providing a better offer for service users	Participation in the Healthier Lancashire programme building upon the "Alignment of the Plans" work undertaken	12	•Recognise the need for: an ambitious vision, robust partnerships, clear and credible delivery plans, strong leadership and governance arrangements at a pan-Lancashhire level	12	MT	Level

Appendix B

Risk Management

Risk Register Timetable and Template

Deadline for new high level risks (scoring 12 and above) to be submitted to riskmanagement@lancashire.gov.uk using the following template, by: • Heads of Service/Risk Champions	Deadline for approval of risk register by: • Service Directors	Deadline for approval of risk register by Management Team	CCPI Dates	Audit and Governance Committee Dates
1st November 2015	1st December 2015	1st January 2016		25th January, 2016
1st January 2016	1st February 2016	1st March 2016	7th March, 2016	
1st April 2016	1st May 2016	1st June 2016	6th June, 2016	27th June, 2016
1st July 2016	1st August 2016	1st September 2016	12th September, 2016	26th September, 2016
1st November 2016	1st December 2016	1st January 2016	5th December, 2016	30th January, 2017

Risk Register Template

Risk Description	A brief description of risk
Risk Type	What type of risk is it: • Political • Economic • Social • Technological • Legal • Environmental

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	• Organisational • Reputational
Possible Consequences	What could happen if no action was taken to control this risk?
Current Controls	What controls do you currently have in place?
Risk Score	What is the risk score (using the scoring matrix below) before taking mitigating actions?

	CATASTROPHIC	5	10	15	20	25
	MAJOR	4	8	12	16	20
	MODERATE	3	6	9	12	15
IMPACT	MINOR	2	4	6	8	10
	INSIGNIFICANT	1	2	3	4	5
		RARE	UNLIKELY	POSSIBLE	LIKELY	CERTAIN
			LIKELIHOOD			

Risk/Opportunity Score = likelihood x Impact.

- Likelihood is Rare (1), Unlikely (2), Possible (3), Likely (4) or Certain (5)
- Impact is Insignificant (1), Minor (2), Moderate (3), Major (4) or Catastrophic (5)
- Risk is Low (0-5), Medium (6-14) or High (15-25)

Any score above 12 or just under and travelling upwards should be submitted to the corporate risk register at riskmanagement@lancashire.gov.uk

Mitigating Actions	What actions are you taking to reduce the risk or maximise the opportunity? For example • Avoid the risk by deciding not to start or continue with the activity that gives rise to the risk • Accept or increase the risk in order to pursue an opportunity • Remove the risk source • Change the likelihood • Change the consequences • Share the risk with another party or parties • Retain the risk by informed decision
Residual Score	What is the score (using the scoring matrix) taking into account the mitigating or maximising actions?

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		CATASTROPHIC	5	10	15	20	25
		MAJOR	4	8	12	16	20
		MODERATE	3	6	9	12	15
	IMPACT	MINOR	2	4	6	8	10
		INSIGNIFICANT	1	2	3	4	5
			RARE	UNLIKELY	POSSIBLE	LIKELY	CERTAIN
				LIKELIHOOD			

Risk/Opportunity Score = likelihood x Impact.

- Likelihood is Rare (1), Unlikely (2), Possible (3), Likely (4) or Certain (5)
- Impact is Insignificant (1), Minor (2), Moderate (3), Major (4) or Catastrophic (5)
- Risk is Low (0-5), Medium (6-14) or High (15-25)

Any score above 12 or just under and travelling upwards should be submitted to the corporate risk register at riskmanagement@lancashire.gov.uk

Risk Owner	Who owns the risk or opportunity?
Direction of Travel	What is the direction of travel? Upwards or downwards

Paul Bond and Debbie Bonser: riskmanagement@lancashire.gov.uk

Corporate risk management: a risk and control framework

Objectives:

- Regularly identify the most significant unmitigated risks to the organisation.
- Assess the impact and likelihood of the most significant unmitigated risks realistically and with a reasonable degree of accuracy.
- Identify and implement appropriate mitigating actions – tolerate, treat, transfer, terminate (or take the opportunity) – at the right level of ownership to be effective, at minimum cost.
- Accept only the risks the organisation intends to and has the appetite for.
- Regularly present a systematic summary of the most significant unmitigated risks to the organisation to the appropriate committee and into the public domain.
- Achieve good corporate governance through effective oversight of the Executive Leadership and senior officers, and their accountability to the Council as a whole.

The risk assessment process is therefore the additional work required, beyond normal business management, to capture and document the risks to the organisation's objectives to support effective oversight of risk management by the body charged with governance on behalf of the Council as a whole.

Risks:

The organisation accepts risks it does not intend to because:

- Significant risks to the organisation are not identified – 1
- The impact and/ or likelihood of risks are not adequately assessed – 2
- Insufficient action is taken in response to a risk assessment in the face of more urgent tasks – 3

1 & 2: Significant risks are not identified, and their impact and likelihood are not realistically or accurately assessed because:

- Insufficient time is made available with insufficient notice to plan to consider risk effectively.
- Individuals with an adequate understanding of the issues at an appropriate level are not involved and their views are not heard.
- Issues arising during routine business are not appropriately escalated or, if they are, are not recognised and treated as risks.
- Those involved in formally assessing risk lack an understanding of what they are being asked to do and how to do it.
- There is no common understanding of the organisation's terminology relating to risk.
- Those involved focus chiefly on emerging issues and projects rather than ongoing risks arising from business as usual.

3: Appropriate mitigating actions are not identified or implemented because:

- Priority is not given to risk management and planning in the face of more urgent tasks.
- There is a lack of resources to consider how best to design any mitigating action.
- There is a lack of resources to implement mitigating actions if they are additional to what is already being done.
- The team or individual at the level that has identified a risk is not able to resolve it but does not escalate it to a more appropriate level, or delegate appropriately.
- Senior managers do not hold more junior managers adequately and regularly to account for risk management.
- Elected members do not hold senior officers adequately and regularly to account for risk management.

Elected members do not hold senior officers adequately to account for their management of risk because:

- Elected members lack the knowledge and skills necessary to undertake their own role and understand that of officers in relation to risk management.
- The organisation lacks an effective governance framework within which to consider risk management.
- Information is not available, not held in an intelligible and consistent format, or is incomplete.

The risk register presented to the elected members charged with governance is not an adequate reflection of the organisation's most significant risks because:

- The process by which significant risks to the organisation should be identified is ineffective – 1 & 2 above
- Risks are assigned anomalous scores when compared with other risks.
- Risks that are considered to have been mitigated are not included.
- The elapsed time taken to create the risk register and then clear it for publication renders it obsolete.
- Officers do not have the risk appetite required to put an adequate assessment of risk into the political and public domain.

Possible controls: → Risks: ↓	The risk assessment process is aligned with and part of the normal business management processes: normal business is considered in terms of risk management.	As part of normal business, unresolved risks are escalated up the management chain. Regular management supervision ensures that all matters are escalated if appropriate.	There is clear sponsorship of and involvement in the risk assessment process at the most senior level.	The risk assessment methodology and terminology are clearly set out, publicised and made available to all involved.	The risk assessment process operates to a routine timetable; established, made known to all individuals involved, and adhered to.	The risk assessment process and methodology are the responsibility of a single senior officer to implement; and they critically assess the output.	A more formal assessment is periodically made by each management team, following the organisation's methodology and terminology, and including risks arising from business as usual as well as new projects and emerging risks.
Significant risks are not identified and their impact and likelihood are not realistically or accurately assessed because:							
Insufficient time is made available with insufficient notice to plan effectively.	Risk is regularly discussed at MTs and is a standing quarterly item on all agendas. Risk is considered as part of the business planning process and is reported as part of quality of service reports.		There is clear sponsorship at both Management Team and cabinet level. Corporate leads have been identified and Heads of Service have been designated Risk Champions		An annual timetable has been published and circulated to all Risk Champions and Directors.	Corporate responsibility for Risk Management lies with the Director of Governance, Finance & Public Services supported by the Head of Legal & Democratic Services. They provide critical challenge and feedback to Risk Champions.	
Individuals with an adequate understanding of the issues are not involved and their views are not heard.	Issues are identified and escalated via 121 supervision sessions, team meetings and business planning sessions.	Issues are identified and escalated via 121 supervision sessions, team meetings and business planning sessions.	There is an appropriate level of understanding and involvement. Risk management approach has been endorsed by MT/Cabinet. Briefing sessions have been completed for MT/Cabinet and are in the process of being rolled out to Risk Champions.				MTs monitor and review service risks and opportunities on an on-going basis with a formal quarterly review. Risk and opportunities that score above the threshold (12) are escalated up to the corporate risk and opportunities register. Risks and opportunities that score below the threshold because of mitigating actions are removed from the corporate register.
Issues arising during normal business are not appropriately escalated or, if they are, are not recognised and treated as risks.	Issues are identified and escalated via 121 supervision sessions, team meetings and business planning sessions.	Issues are identified and escalated via 121 supervision sessions, team meetings and business planning sessions.					MTs monitor and review service risks and opportunities on an on-going basis with a formal quarterly review. Risk and opportunities that score above the threshold (12) are escalated up to the corporate risk and opportunities register. Risks and opportunities that score below the threshold because of mitigating actions are removed from the corporate register.

Possible controls:→ **Risks:↓**	**The risk assessment process is aligned with and part of the normal business management processes: normal business is considered in terms of risk management.**	**As part of normal business, unresolved risks are escalated up the management chain. Regular management supervision ensures that all matters are escalated if appropriate.**	**There is clear sponsorship of and involvement in the risk assessment process at the most senior level.**	**The risk assessment methodology and terminology are clearly set out, publicised and made available to all involved.**	**The risk assessment process operates to a routine timetable; established, made known to all individuals involved, and adhered to.**	**The risk assessment process and methodology are the responsibility of a single senior officer to implement; and they critically assess the output.**	**A more formal assessment is periodically made by each management team, following the organisation's methodology and terminology, and including risks arising from business as usual as well as new projects and emerging risks.**
Those involved in formally assessing risk lack an understanding of what they are being asked to do and how.				Briefing sessions are being held for all Directors, Risk Champions and appropriate members. This is supplemented by a dedicated website and officer support			Risk Champions (HoS), directors and relevant members are in the process of being briefed on the risk management approach and will have an understanding of what they are required to do.
There is no common understanding of the organisation's risk methodology and terminology.				Briefing sessions are being held for all Directors, Risk Champions and appropriate members. This is supplemented by a dedicated website and officer support			Risk Champions (HoS), directors and relevant members are in the process of being briefed on the risk management approach and will have an understanding of what they are required to do
Those involved focus chiefly on emerging issues and projects rather than ongoing risks arising from business as usual.	Systematic recording and monitoring ensures continuing risks are managed until the residual score is acceptable						Formal assessment is made on a quarterly basis and mitigating actions identified and implemented
Appropriate mitigating actions are not identified or implemented because:							
Priority is not given to risk management and planning in the face of more urgent tasks.	Formal assessment is made on a quarterly basis and mitigating actions identified and implemented	Formal assessment is made on a quarterly basis and mitigating actions identified and implemented	Risk Champions identified for each service area		The process is actively managed by the Director of Governance, Finance and Public services supported by the Head of Legal & Democratic Services to ensure adherence to the timetable		Formal assessment is made on a quarterly basis and mitigating actions identified and implemented
There is a lack of resources to consider how best to design any mitigating action.	Issues escalated to MTs for consideration and appropriate resource allocation to design mitigating actions	Issues escalated to MT for consideration and appropriate resource allocation to design mitigating actions					

Possible controls: → Risks: ↓	The risk assessment process is aligned with and part of the normal business management processes: normal business is considered in terms of risk management.	As part of normal business, unresolved risks are escalated up the management chain. Regular management supervision ensures that all matters are escalated if appropriate.	There is clear sponsorship of and involvement in the risk assessment process at the most senior level.	The risk assessment methodology and terminology are clearly set out, publicised and made available to all involved.	The risk assessment process operates to a routine timetable; established, made known to all individuals involved, and adhered to.	The risk assessment process and methodology are the responsibility of a single senior officer to implement; and they critically assess the output.	A more formal assessment is periodically made by each management team, following the organisation's methodology and terminology, and including risks arising from business as usual as well as new projects and emerging risks.
There is a lack of resources to implement mitigating actions if they are additional to what is already being done.	MTs reallocate resources as appropriate	MTs reallocate resources as appropriate					
The team or individual identifies a risk but is unable to resolve it, and does not escalate or delegate it to a more appropriate level.		Risk is regularly discussed during management supervision so that risks and opportunities are identified and escalated appropriately					
Senior managers do not hold more junior managers adequately and regularly to account for risk management.	Risk is regularly discussed during management supervision so that risks and opportunities are identified and escalated appropriately	Risk is regularly discussed during management supervision so that risks and opportunities are identified and escalated appropriately	Risk Champions in each service area		Risk champions cascade to more junior managers. All information on risk management approach is on the website		Quarterly formal arrangements
Elected members do not hold senior officers adequately and regularly to account for risk management.	Quarterly reports to CCPI and A&GC. Risk also forms part of quality of service reports and hold senior officers and portfolio holders to account	Quarterly reports to CCPI and A&GC. Risk also forms part of quality of service reports and hold senior officers and portfolio holders to account	Risk Register routinely reported to Cabinet/MT				
The risk register presented to the member body responsible for overseeing corporate risks is not an adequate reflection of the organisation's most significant risks because:							
The process by which significant risks should be identified is ineffective.	See all above: risks and controls relating to the identification and assessment of significant risks.						

Possible controls: → Risks: ↓	The risk assessment process is aligned with and part of the normal business management processes: normal business is considered in terms of risk management.	As part of normal business, unresolved risks are escalated up the management chain. Regular management supervision ensures that all matters are escalated if appropriate.	There is clear sponsorship of and involvement in the risk assessment process at the most senior level.	The risk assessment methodology and terminology are clearly set out, publicised and made available to all involved.	The risk assessment process operates to a routine timetable; established, made known to all individuals involved, and adhered to.	The risk assessment process and methodology are the responsibility of a single senior officer to implement; and they critically assess the output.	A more formal assessment is periodically made by each management team, following the organisation's methodology and terminology, and including risks arising from business as usual as well as new projects and emerging risks.
Risks are assigned anomalous scores.				Risk Champions have been briefed on scoring matrix and template. Information is set out on website		Corporate responsibility for Risk Management lies with the Director of Governance, Finance & Public Services supported by the Head of Legal & Democratic Services. They provide critical challenge and feedback to Risk Champions.	MTs also provide challenge on a quarterly basis
The elapsed time taken to create the risk register and then clear it for publication renders it obsolete.					Routine annual timetable in place. Quarterly reporting to ensure register is up to date and relevant		
Officers do not have the risk appetite required to put an adequate assessment of risk into the political and public domain.	Risk is regularly discussed at MTs and is a standing quarterly item on all agendas. Risk is considered as part of the business planning process and is reported as part of quality of service reports. Formal reports presented to committee	Risk is regularly discussed at MTs and is a standing quarterly item on all agendas. Risk is considered as part of the business planning process and is reported as part of quality of service reports. Formal reports presented to committee	There is clear sponsorship at MT level and Cabinet	Risk Champions have been briefed on scoring matrix and template. Information is set out on website			MTs also provide challenge on a quarterly basis
	See below: risks and controls relating to effective corporate governance.						

Possible controls: →	Those elected members with	Members are selected for	A member body (such as an	The body responsible for	The body responsible for

Risks:	specific responsibility for corporate governance are trained following their election and appointment, and periodically thereafter in risk management and their oversight role.	their oversight role on the basis of their prior knowledge and experience where this is available, or their interest in the role.	audit or risk management committee) has specific responsibility to oversee the organisation's and senior officers' management of risk. This body operates in accordance with best practice.	overseeing risk receives regular reports that reflect management's consideration of risk and its mitigation in practice: the output from the control processes set out above.	overseeing risk adopts a positive, supportive but challenging culture.
Elected members do not hold the Executive Leadership and senior officers adequately and effectively to account for their management of risk because:					
Elected members lack the knowledge and skills necessary to undertake their own role and understand that of officers in relation to risk management.	Briefing session to informal cabinet on risk management approach. Risk management approach has also been reported to A&GC	Members are selected by political parties (subject to political balance rules) on the basis of their prior knowledge and experience			
The organisation lacks an effective governance framework within which to consider risk management.			Regular reports (quarterly) are presented to informal cabinet, portfolio holders, CCPI and A&GC		Quarterly reports
Information is not available, not held in an intelligible and consistent format, or is incomplete.				Quarterly committee reports. Information published on website C-First	

Audit and Governance Committee
Meeting to be held on 25 January 2016

Electoral Division affected: All

The Procurement Service Update Report
(Appendices 'A' and 'B' refer)

Contact for further information:
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rachel.tanner@lancashire.gov.uk

Executive Summary

This report provides an update on the performance of the Procurement Service, including progress made to date in implementing the Procurement Service improvement plan and the current performance of the service against the key performance indicators aligned to the procurement strategy.

Recommendation

The Committee is asked to note the report and comment as appropriate.

Background and Advice

The County Council spends approximately £340million a year on goods and services procured by the Procurement Service, and currently has over 420 contracts in place.

The Procurement Service was transferred back to the County Council from One Connect Limited in February 2014. Following the design of the County Council's new organisational structure later in 2014, the service was split into two services: the Procurement Service and Exchequer Services and the new Head of Procurement has been in post since 1 April 2015.

Under the new organisational structure the Procurement Service sits within the wider Corporate Commissioning function and is responsible for the buying of goods, services and works for the County Council. There are three Category Management Teams that look after three main categories of expenditure;

- care and public health,
- construction and assets, and
- corporate goods.

Whilst each team buys different types of goods and services they all follow the same processes in relation to developing specifications, tendering and contract award processes. These teams are also combined with low value sourcing activity to

Lancashire County Council

ensure compliance with procurement regulations, working within existing frameworks, contracts and catalogues.

In addition to the three Category Management Teams, the service has a Procurement Information Management (PIM) Team which is responsible for the management and control of supplier data within the Oracle system and supporting operational systems. The team is responsible for setting up and maintaining supplier information on the system.

Service Improvement Plan

Since the service transferred back to the County Council in 2014, it has been subject to a service improvement plan, which was introduced to cover and improve the diverse range of activities provided by the former service including tendering, procurement management information, supplier relationship management, sourcing of goods and the payment of invoices. Whilst good progress had been made in a number of key areas in the first year following the transfer, not all actions had been implemented as anticipated by March 2015, largely as a result of the Council's transformation agenda. This position has provided the newly appointed Head of Procurement and the newly formed Procurement Board the opportunity to have a direct input into the decisions and changes to procedures and policies going forward at a time of unprecedented change within the County Council. In particular, it has enabled a more effective review of the Council's procurement rules to be undertaken to ensure they are practical and support the smooth running of the organisation, aligning them more closely with the revised Scheme of Delegations to Heads of Service and Cabinet Members. The revised procurement rules are due to be presented to the Full Council in February 2016.

The actions relating to the service going forward are progressing well and the current position, including revised timescales where appropriate, are attached at Appendix 'A'. The Procurement Service has reported progress against the plan to the Cabinet Committee on Performance Improvement in December 2014, March 2015 and October 2015. The main areas included in the plan are set out below:

- **Procurement Strategy**

The County Council's procurement strategy was approved by Cabinet in October 2014. The strategy which encompasses all aspects of the County Council's procurement-related activity is a key tool in assisting the County Council to improve procurement activity across the County Council and to help the organisation achieve its objectives, particularly trying to overcome barriers in current processes that prevent some smaller and voluntary organisations from working with the Council. The performance indicators attached at Appendix 'B' show progress against the strategy for some key performance areas.

- **Procurement Board**

To be successful and to drive forward policies and working practices that will support the achievement of the broad objectives of the procurement strategy a Procurement Board was re-established in May 2014. The membership of the Board was changed in April 2015 to reflect the new County Council structure, ensuring appropriate director level representation. The Board meets on a bi-monthly basis.

Performance Dashboard

In addition to the service improvement plan, a dashboard of performance indicators for key activity aligned to the procurement strategy was produced and presented to the Cabinet Committee. The objective of the dashboard is to establish and monitor the County Council's performance against objectives set out in the procurement strategy. A dashboard showing the related service performance to the end of November 2015 is attached at Appendix 'B'.

The service is building on the work already undertaken in this area to demonstrate more effectively how the procurement strategy is being embedded within operational practices, particularly around overcoming the barriers in current processes that prevent some smaller and voluntary organisations from working with the Council. A specific action has been included in the service improvement plan to support this development with the cleanse and update of the supplier database to enable procurement activity to be reported against organisational classifications, i.e. small medium sized enterprises (SMEs), and the Voluntary, Community and Faith Sector (VCFS). Good progress has been made in this area which is on target to be completed by the end of the financial year.

Procurement Performance

Prior to the transfer of the service to the County Council there were many examples of contracts being extended as procurement processes weren't completed in a timely manner. Following a review of the ongoing procurement activity at the start of this financial year, a number of contracts were identified that had either expired or were expiring before the completion of the ongoing procurement process and it was necessary to request formal approval to extend these contracts in line with the County Council procurement rules. The associated contracts focussed on two specific Category Management Teams; care and public health and construction and assets. The table below indicates the number of contracts involved and the total value of the contract extensions.

Category Management Team	Number of Contracts	Extension Value £million	Ongoing procurement exercise %
Care and Public Health	13	1.38	100
Construction and Assets	3	1.27	100
Total	**16**	**2.65**	**100**

Whilst procurement exercises were underway in relation to these contracts, and the majority related to short term extensions for only a few months, it was recognised that further work was required as a priority to reinforce and build upon the operational arrangements already in place to help prevent this situation re-occurring.

A number of key activities have been undertaken since the start of the financial year to further improve performance in this area and strengthen the internal control arrangements, including:

- Heads of Service training which was completed in July 2015, to highlight in particular the need for planned procurement activity to be shared with the Procurement Service at the earliest opportunity ;
- An ongoing review of the current contracts register to highlight any potential gaps in contract information; The reintroduction of timely management reviews of current procurement activity, and
- Closer working relationship with Legal Services with the introduction of weekly Legal Clinics.

The ongoing review of the contacts register, which includes the end dates of all contracts listed, together with the refresh of the category management service plans, is highlighting more effectively the lead in times for procurement exercises to be completed on time. This activity is also being closely monitored by the Procurement Board.

Notwithstanding these new arrangements, there will inevitability be an ongoing, occasional need for contract extensions brought about by circumstances which the Council acting as a diligent contracting authority could not have foreseen.

This has been the case during 2015/16, where a further six contracts have required cabinet member approval to extend the existing contracts with an estimated extension value of £2.6 million. Three of the contract extensions were required to allow for continuity of services within the short term as decisions relating to future service provision are made, and another short term extension related to unforeseen difficulties in the transfer of services for a completed procurement exercise, which has been satisfactorily resolved.

To provide some context of the progress made by the service to reduce the number of requests for contract extensions and effectively manage procurement exercises in a timely manner, it is useful to compare the position reported here with that reported in May 2014, immediately following the transfer of the service back to the County Council. The table below shows the number of contracts which were included in a request for a blanket waiver of the procurement rules and the total value of the contract extensions to allow time for full tendering processes to be carried out and new contractual arrangements to be put in place. A significant number of contracts had either expired or were due to expire without any tendering process in place to award new contracts.

Category Management Team	Number of Contracts	Extension Value £million	Ongoing procurement exercise %
Expired contracts			
Construction and Assets	8	4.876	63
Corporate	16	7.034	63
Sub Total	**24**	**11.910**	**63**
Expiring contracts			
Construction and Assets	6	0.337	50
Corporate	8	2.270	25
Sub Total	**14**	**2.607**	**36**
Total	**38**	**14.517**	**50**

The position on these contracts has been taken forward by the service retendering the contracts in line with the approved extension dates.

In addition to the above blanket waiver request, an analysis of the approved waiver reports in 2013/14 identified that a further 22 contracts were extended with a total extension value of approximately £13 million across all category management areas.

Significant progress has been made by the service during this year to retender the public health contracts which were transferred to the Council in April 2013. At the time the contracts were transferred to the Council a decision was made for the responsibility to stay with the NHS Commissioning Support Unit for a period of 2 years as part of the transitional arrangements. This included 179 contracts at a total annual value of £44 million. A requirement to extend the contracts beyond the transitional period of two years into 2015/16 resulted from the delays in the commissioning processes due to the complexity and nature of the specific projects concerned and the disorganised manner in which the contracts were transferred to the Council. A significant programme of procurement activity has been in place over the last 12 months to retender these services successfully, which has been achieved through the effective working relationship with public health and commissioning colleagues to redesign the services and consolidate many of the existing contracts going forward. This has included the award of contracts for integrated sexual health services for people of all ages, and young people, the integrated wellbeing worker service for vulnerable adults, substance misuse frameworks for adults and children's services, and the School Nursing Service.

A total of 85 contracts with an annual value of £55m have been awarded successfully in the current financial year across the three category management areas up to and including November 2015. These contracts have engaged 51 contractors within Lancashire with a contract value of approximately £22m and a further 42 contractors within the North West have been engaged with a contract value of approximately £6.6m.

Whilst the service has not seen a rise in the receipt of formal challenges around procurement activity, it is important to understand that a number of queries are received generally in relation to procurement exercises, which have been categorised as informal challenges in the performance dashboard data. The appropriate resolution and response to these queries by the service, in liaison with colleagues from Legal Services, assists in ensuring that such queries do not escalate into formal challenges and helps to demonstrate the robust nature of the procurement activity undertaken.

The service has made significant progress in registering social care providers to use the Care Portal, which allows them to send invoices through electronically for payment. Private residential and nursing homes will be required to use the portal from the start of the new financial year in 2016/17 which will significantly improve the number of providers currently using the portal. This model is being used to register property and highways related suppliers to send invoices electronically in 2016/17 as part of the implementation of a suite of new systems in these specific areas.

Supporting Suppliers

Many suppliers contact the County Council through dedicated customer support lines. Arrangements had been put in place with the assistance of the Customer Access Service, which had improved this area of activity in the previous year. The figures for the year to date indicate that performance continues to exceed the target set for the service.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Failure to act on the service improvement plan will mean that the County Council does not achieve its objectives in relation to procurement, and may not comply with legislation around procurement. This could lead to costly legal challenges.

List of Background Papers

Paper	Date	Contact/Tel
Report to Cabinet - 'Approval of the County Council's Procurement Strategy'	9 October 2014	Chris Mather, Democratic Services, (01772) 533559s

Appendix 'A'

Procurement Service Improvement Plan

Action	Timescale	Progress	Status
1. Our Approach to Procurement			
1.1 Effective leadership is embedded within the service to take forward and improve service delivery and meet the needs of the County Council.	Ongoing	Head of Procurement and the service senior management team in place from the start of 2015/16 and now forms part of the wider Commissioning Group. A quality of service/dashboard report for the service has been developed and is produced quarterly. The focus of the report is on activity that supports the achievement of the aims and objectives of the procurement strategy.	Green
1.2 Set out an approach to category management that maximises the use of financial and non-financial data and that ensures off contract spend is minimised.	March 2015 **Revised Jan 2016**	An approach to category management has been introduced which will be further developed as management information reports are introduced and used more widely within the service.	Amber

Action	Timescale	Progress	Status
1.3 Develop Procurement Plans for every category of spend to reflect service priorities	Ongoing	Implemented. Service plans are being refreshed through the year. Regular meetings with operational and commissioning staff are held as appropriate to ensure these remain up to date and relevant and to ensure ongoing engagement/discussion on procurement activity at a senior level across the County Council.	Green
1.4 Regularly review management information on high and low value spend, off-contract spend (both where there is a contract and where there isn't a contract), and retro-ordering.	June/July 2015 **Revised Oct 2015**	Implemented. The report is available and being piloted within the service.	Green
1.5 Revise procurement rules and contract standing orders to ensure they reflect current legislation and support business need	May 2015 **Revised October 2015**	Revised procurement rules have been considered by the Procurement Board and have been agreed with Legal and Democratic Services. The revised rules are more closely aligned to the new Scheme of Delegation for Heads of Service and Members. It is proposed to present the revised rules to Full Council in February 2016. This action has taken longer than initially anticipated, ensuring the revised rules have been subject to the appropriate scrutiny and approval process.	Amber
1.6 Review standard tender documentation for suppliers to ensure they are proportionate to level of spend (including considering a revised approach to ppq, and link with electronic systems).	April 2015	Adequate documentation is in place – potential for further rationalisation is currently being considered.	Green

Action	Timescale	Progress	Status
1.7 Develop and implement a Contracts Register that is made publicly available.	March 2015 **Revised November 2015**	A contracts register is maintained by the service. Given the situation of expiring contracts identified in April 2015, reviews of the document will be ongoing with key service areas to identify potential gaps in contract information.	Green
1.8 Review approach to contract monitoring (including consideration of monitoring by organisation, not contract)	March 2015	A decision has been made that contract monitoring will sit within Operations & Delivery, and not within the Procurement Service as part of the County Council's restructure.	Green
1.9 Develop and deliver new training programme to ensure all relevant staff are fully trained in procurement and governance requirements.	September 2014 **Revised** **Ongoing**	Implemented. Training has been provided by Democratic Services and Legal Services. Slides have been made available on the website. The quality of reports to members and Chief Officers has improved significantly. Ongoing training from the legal services team is also in place with the establishment of legal surgeries' in relation to procurement activity. Training has also been provided by procurement service staff to other Directorates that currently conduct their own procurement work. Training on a new EU Directive on Procurement has been delivered to the Procurement Service in February 2015. Training of the new Heads of Service took place in July 2015. Further guidance will be provided to Heads of Service on the approval of the County Council's revised procurement rules.	Green

Action	Timescale	Progress	Status
1.10 Develop an approach to maximise the benefits to the County Council of increasing supplier use of electronic systems.	March 2015 **Revised** **Ongoing**	The number of suppliers engaging with the County Council's new systems is increasing as a result of the steps taken by the service and BTLS to improve this position. An approach has been developed through the work on the Care Portal which is providing the basis for introducing electronic methods to additional systems, including the ongoing Core Systems Review relating to property and highways transactions.	Green
1.11 Develop a performance management framework to manage key risks and activities and ensure regular monthly reporting that is embedded within the County Council's performance management framework.	December 2014 **Revised** **Ongoing**	Performance reports have been provided to the Cabinet Committee for Performance Improvement, in addition to the regular updates to the Procurement Board during the year. The performance dashboard, will be reviewed on an ongoing basis and further developed as necessary to capture the most appropriate service information. Monitoring of the Service Improvement Plan is also carried out by the procurement service Senior Management Team.	Green
1.12 Cleanse supplier data base and apply agreed organisational classifications, i.e. SMEs, VCFS, to all suppliers.	December 2015 **Revised** **March 2016**	Given the large volume of data and the requirement to agree definitions for the organisational classifications this exercise will require significant resources and an achievable timeframe to complete. Good progress has been made to date and the work is on track to be completed within the revised timescale.	Amber
2. Sustainable Procurement			
2.1 Ensure internal processes proportionate to level of spend (including considering the Gateway Process)	March 2015	A consistent approach using consolidated Gateway documents has been introduced across the three Category Management Teams.	Green

Action	Timescale	Progress	Status
3. Social Value			
3.1 Develop the County Council's approach to Social Value in Procurement	May 2015 **Revised March 2016**	A draft policy has been approved by the Procurement Board and formal approval is scheduled within the revised timescale. The approval of the policy will formalise the procedures which have been undertaken on a relatively adhoc basis to date and provide greater consistency across the service for the implementation/consideration of social value for all appropriate procurement exercises. Examples of how the service has effectively implemented social value within procurement exercises includes the recognition by the Cabinet Office Mystery Shopper Service which provided positive feedback for the YPS Framework Agreement. "It was excellent to see the significant consideration you had given to social value and the social value act throughout the pre-procurement stage of this contract."	Amber
4. Doing Business with the County Council			
4.1 Ensure customer access and support is appropriate and enables customers to communicate with the service in a way that is accessible and appropriate for business needs.	March 2015 Ongoing	Dedicated customer helpdesks have been established and are working well	Green

5. Electronic Procurement			
5.1 Implement the corporate e-tendering system, Oracle Sourcing, across all procurement categories.	March 2015 **Revised** **March 2016**	This is in use across all procurement categories. Problems are still being experienced with the systems which are impacting on the effectiveness of the Service a year after implementation. Issues identified by the post implementation review will be taken forward within the timescales set.	Amber
6. Performance Management			
6.1 Culture change, consistent and effective working practices and models are embedded.	March 2015	Implemented. Working practices are being reviewed particularly for the new systems. Additional technical, systems and also management training has been implemented as have the principles of the Lancashire Way. Documentation has been reviewed for procurement processes to try and standardise as much as possible. Workforce development activity has been undertaken including management training, cross training between teams to address resilience issues and overcome knowledge gaps and application of LCC policies in a standardised way across the whole of the service, i.e. sickness.	Green
6.2 Establish a Procurement Board with agreed Terms of Reference that supports the delivery of the County Council's Procurement Strategy.	May 2014 **Revised** **April 2015**	Implemented. Procurement Board has been re-established and has met on a bi-monthly basis. New Procurement Board and membership now in place to reflect the County Council's restructure from 1 April 2015.	Green

7. **Our Suppliers**			
7.1 Ensure supplier access and support is appropriate and enables suppliers to communicate with the service in a way that is accessible and appropriate for business needs.	Ongoing	Implemented. The PIM Team provides effective support to suppliers and potential suppliers.	Green

Procurement Function Performance Dashboard

December 2015

Appendix B

Lancashire County Council

Contracts and Challenges Overview

Performance monitored through comparing figures of contracts let to targets assigned by the Procurement Plan.

	2014/15	Q1	Q2	Oct-Nov	Trend
Value of contracts let £m	98.70	13.85	24.62	16.6	N/A
No. contracts let	119	50	22	13	N/A
Contracts let on time	94%	78%	96%	100%	Back on track

	Q1	Q2	Oct-Nov	Trend
Challenges received	0	0	0	Positive
Challenges successfully responded to	N/A	N/A	N/A	N/A
Informal Challenges received	1	12	2	Positive
Informal challenges successfully responded to	1	12	2	Positive

Care Portal

The Care Portal was introduced from July 2014 to allow care providers to submit their invoices to the County Council electronically. Figures show % of providers registered to use the portal and % of providers currently using the portal to submit invoices.
Work is continuing to encourage providers to register for and use the portal.

	2014/15	Q1	Q2	Oct-Nov	Target
Registered to use Portal	74%	82%	84%	85%	100%
Submitting invoices via the portal	54%	53%	60%	60%	100%

Call Handling Times

Performance monitored through tracking average call waiting and handling times, in minutes, for calls to the County Council's PIM support line.

PIM Phone Activity	Q1	Q2	Oct - Nov	Year to Date
Average Call Wait	00:14	00:11	00:16	00:14
Average Call Handling	03:57	04:19	03:84	03:87

Geographic Locations of Contractors

This information shows where suppliers who have been awarded contracts by the County Council in 2014/15 and so far this year have their base.

	2014/15		2015/16	
Contractor Location	Contractors	Annual Value £m	Contractors	Annual Value £m
Lancashire	82	22.58	60	30.66
North West	30	8.93	50	12.39

Call Answer Times

Performance monitored through tracking volume of incoming calls to the County Council's PIM support line, and how many are answered

PIM Phone Activity	Q1	Q2	Oct-Nov	Year to Date	Target
% Calls Answered	98%	98%	97%	98%	90%
Volume Calls Offered	1,817	1,871	1729	5417	
Volume Calls Answered	1,771	1,835	1683	5289	

Key: Blue – For Information. Green - On Target. Amber – Issues that may Affect Target. Red – Missed Target.