Lancashire County Council

Audit, Risk and Governance Committee

Monday, 29th January, 2018 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 25th September 2017** To be confirmed, and signed by the chair.	(Pages 1 - 6)
4.	**Audit, Risk and Governance Committee - Revised Name and Terms of Reference**	(Pages 7 - 12)
5.	**Accounting Policies Applicable to the Statement of Accounts 2017/18**	(Pages 13 - 36)
6.	**Treasury Management Policy and Strategy 2018/19**	(Pages 37 - 64)
7.	**2017/18 Treasury Management Activity Update**	(Pages 65 - 72)
8.	**Internal Audit Progress Report**	(Pages 73 - 102)
9.	**Risk and Opportunity Register Quarter 3**	(Pages 103 - 118)
10.	**Liquid Logic System Update**	(Pages 119 - 124)
11.	**Report of Decision taken under the Urgent Business Procedure**	(Pages 125 - 126)
12.	**Urgent Business**	

Lancashire County Council

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 30th April 2018 at 2.00pm in Committee Room B, County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 25th September, 2017 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

E Nash	J Berry
P Williamson	M Parkinson
A Vincent	J Mein

1. Apologies

Apologies were received from County Councillor John Shedwick.

County Councillor Jennifer Mein replaced County Councillor Erica Lewis for this meeting.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 31st July 2017

In respect of item 8, "External Auditor Appointment Process", (page 3 of the minutes refer), the Chair reported that he had been consulted on the appointment and had raised no objection.

Reference was made to the suggestion at the meeting, during discussion of item 9, "Actions to enhance the Committee's effectiveness as an element of the Council's Governance Framework" (page 4 of the minutes refer), that the Terms of Reference should also include provision for the Chair to approve any urgent business outside of the cycle of meetings. The Director of Governance, Finance and Public Services reported that, rather than create a bespoke mechanism for decisions to be taken that could not await the next scheduled meeting of the Committee, it was considered to be more appropriate for any such business to be dealt with under the County Council's existing Urgent Business Procedure, whereby the Chief Executive, or another Director, could take any urgent decision in consultation with the Chair. Such action would then be reported to the next Committee meeting.

Resolved: - That the minutes of the meeting held on 31 July 2017 as presented be approved as a true and accurate record and be signed by the Chair.

4. The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2016/17

The Committee considered a report setting out the Annual Audit Letter for the County Council and the Lancashire County Pension Fund for 2016/17.

It was reported that the Annual Audit Letter confirmed the actions that had been undertaken by Grant Thornton, the County Council's external auditors, together with the key messages in relation to the financial statements audit and audit opinion, and the Value for Money conclusion.

The Committee considered that the wording of a number of statements in the 'Findings and Conclusions' column of the Audit Letter should be made clearer, e.g. the reference to the Council's arrangements for working effectively with third parties. This would be taken forward by the External Auditor.

Resolved: - That the report be noted.

5. Treasury Management Activity 2017/18

The Committee considered a report setting out details of the County Council's treasury management activity for the period April - July 2017. The report set out details of the economic conditions during the period; borrowing activity; investment activity; and actual results measured against the 2017/18 Prudential Indicators.

Reference was made to the decision, taken under the County Council's Urgent Business Procedure, to create a new post of Director of Investment who would report to the Director of Financial Resources and would present future reports to the Committee on treasury management activity. The establishment of the new post followed a review of resources including the level and type of support provided by the Local Pensions Partnership Ltd (LPPL) under a contracted arrangement. It was proposed that the Committee would have oversight of any decisions that the Director of Financial Resources might take for the investment of up to £15m in individual funds, with the £15m cap being an appropriate medium range figure. Investments in excess of £15m would require approval from Cabinet.

Officers were requested to provide more detail on the Public Finance Initiative (PFI) liability detailed on page 35 of the report including, in particular, whether the liability was reducing.

Resolved: - That:

(i) The treasury management activities for the period April to July 2017 as set out in the report be noted;
(ii) The changes to the Council's treasury management resource as set out in the report be noted;

(iii) The process for fund selection, as set out in the report, including decisions for funds of up to £15m to be made by the Director of Financial Resources, be approved;
(iv) The changes, as set out in the report relating to IFRS 9 that are to be implemented from 1 April 2018, be noted.

6. Health, Safety and Resilience Service Overview and Risk Register

The Committee considered a report setting out an overview of the County Council's Health, Safety and Resilience Service.

Appendix 'A' to the report 'Preparing for Emergencies in Lancashire' was the culmination of work with the County Council's partners, (e.g. the NHS, Police, Fire and Rescue, and other local authorities), in the Lancashire Resilience Forum and identified the risks and how they would be dealt with.

Reference was made to building up community resilience including the use of e-mail and text alerts to provide warnings and updates. It was noted that communication was key when dealing with incidents such as flooding and it was suggested that initiatives such as mobile apps should be further developed to support this.

The Committee's attention was drawn to the 'In The Know' website, an online, secure, two-way community messaging service available to the public, neighbourhood watch schemes and resilient community groups for notifications regarding severe weather, crime and community safety issues, and also alerts in specific areas. It was noted that information was also available regarding the arrangements in place within Lancashire on how the County Council and partner agencies prepared for, and responded to, emergencies. In addition, risk information could be accessed through the 'Preparing for Emergencies' booklet which provided advice relating to the top risks in Lancashire and what individuals could do to protect themselves, their family, their home and their businesses.

Appendix 'B' to the report set out details of the training available to Councillors and it was agreed that this should be further promoted via the Member Development Steering Group and should also be highlighted in reporting the proceedings of the Committee to Full Council.

Resolved: - That:

(i) The report be noted;
(ii) That the take-up of places on Councillor training be supported and promoted as set out above;
(iii) That members of the Committee promote the use of the 'In The Know' website to the public as and when opportunities to do so arise.

7. Internal Audit Progress Report

The Committee considered a report setting out details of the work undertaken by the Internal Audit Service against the Audit Plan for 2017/18 which had been approved by the Committee at its meeting on 26 June 2017.

It was noted that the Audit Plan set out a framework for the reports which the Committee would receive during the course of 2017/18 and the outcomes of a number of audits would be reported to the Committee in January 2018.

The Committee's attention was drawn to the likelihood that only limited assurance would be given for 2017/18 given a number of factors as set out in paragraph 2.2 of the report.

It was noted that the Internal Audit Service would be subject to an external quality assessment in November and that the Chair of the Committee would be meeting with the external assessor as part of that process. It was expected that the results of the assessment would be reported to the Committee in January 2018.

Resolved: - That the report be noted.

8. Standards and the Code of Conduct

The Committee considered a report setting out details of the County Council's Code of Conduct, together with the legislative context, the process for dealing with complaints and the sanctions available to the Conduct Committee. The current Code was approved by the Full Council in May 2012 in accordance with the provisions of the Localism Act 2011 and replaced the previous, more prescriptive, standards regime.

It was reported that on 18 September 2017 the Department for Communities and Local Government (DCLG) had published a consultation 'Disqualification Criteria for Councillors and Mayors' proposing to introduce additional criteria for disqualification. As the closing date for responses was 8 December 2017, in advance of the next meeting of the Committee, it was proposed to circulate the consultation document by e-mail and that Committee Members be requested to submit any comments to the Director of Governance, Finance and Public Services so that a response could be drafted and approved under the County Council's Urgent Business Procedure for submission.

The Committee discussed ways in which Councillors could be encouraged to undertake training and awareness on conduct matters and it was felt that the County Council should promote greater awareness of conduct issues and that the issue should also be highlighted in reporting the proceedings of the Committee to Full Council.

Resolved: - That:

(i) The report be noted;

(ii) The proposals for responding to the DCLG consultation 'Disqualification Criteria for Councillors and Mayors' be noted.

9. Risk and Opportunity Register Quarter 2

The Committee considered a report setting out details of an updated (Quarter 2) Risk and Opportunity Register for the Committee's consideration. The report, which had previously been considered by the Cabinet Committee on Performance Improvement, highlighted three new entries to the register (CR29 (Delayed Transfer of Care); CR30 (Prevent people being drawn into terrorist activity); and CO5 (Apprenticeship levy)), together with one deletion (CO3 (Opportunities through delivering the draft corporate strategy and property strategy)).

Reference was made to the links between the corporate Risk and Opportunity Register and the Health, Safety and Resilience Service Risk Register and the Committee was updated on a number of entries in the corporate register where the residual risk score remained 12 or above. These included CO1 (Establishing a new model for public service delivery in Lancashire) and CR30 (Prevent - people being drawn into terrorist activity). In respect of CR30, reference was made to online training for staff and officers were asked to confirm if the training was also available to Councillors.

Resolved: - That:

(i) The report be noted:
(ii) Officers report back on those issues identified above.

10. Update on Overpayment of Salaries

The Committee considered a report setting out an update on the overpayment of salaries to individuals who were no longer employees of the County Council and which had previously been identified by the Internal Audit Service as part of an audit of payroll.

It was noted that the value of overpayments, together with the average amount, had reduced significantly and that steps to further reduce the instances of overpayments were being undertaken.

However, the Committee requested a further report at its next meeting providing further details of the overpayments including the age profile and overpayments by service area.

Resolved: - That:

(i) The report be noted;
(ii) A further report, as set out above, be considered by the Committee at its next meeting.

11. Urgent Business

There was no urgent business to be considered.

12. Date of Next Meeting

The Chair reported that the date of the next meeting, Monday 23 October 2017, was a provisional date and it was proposed that the date be cancelled as it was no longer needed.

Resolved: - It was therefore noted that the next meeting of the Committee would be held on Monday 29 January 2018 at 2.00pm in Cabinet Room 'B', County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2018

Electoral Division affected:
(All Divisions);

Audit, Risk and Governance Committee - Revised Name and Terms of Reference
(Appendix 'A' refers)

Contact for further information:
Dave Gorman, Tel: (01772) 534261, Senior Democratic Services Officer,
dave.gorman@lancashire.gov.uk

Executive Summary

On 26 October 2017, Full Council approved the recommendation of the Audit and Governance Committee to revise the Committee's name and Terms of Reference.

Recommendation

The Committee is recommended to note the decision taken by Full Council on 26 October 2017 to revise the Committee's name and Terms of Reference.

Background and Advice

On 31 July 2017, the Audit and Governance Committee considered a report from the Head of Internal Audit, 'Actions to enhance the Committee's effectiveness as an element of the Council's Governance Framework'.

The report resulted from an assessment by the Internal Audit Service of the Audit and Governance Committee's objectives in the context of the County Council's governance framework and current good practice. As a result of this, it was considered appropriate to revise the Committee's name and Terms of Reference to better reflect the Committee's role as part of a wider framework of corporate governance that achieves good governance for the County Council as a whole.

At its meeting on 26 October 2017, Full Council approved the proposal that the name of the Committee be changed to the "Audit, Risk and Governance Committee" and that the revised Terms of Reference for the Committee (as set out at Appendix 'A' of this report) be approved.

Consultations

N/A

Lancashire County Council

Implications:

This item has the following implications, as indicated:

Risk management

There are no significant risks associated with the proposals set out in this report.

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

Paper	Date	Contact/Tel
Report to Full Council - 'The Audit and Governance Committee - Revised Name and Terms of Reference'	26 October 2017	Dave Gorman/(01772) 534261
Report to the Audit and Governance Committee - 'Actions to enhance the Committee's effectiveness as an element of the Council's Governance Framework'	31 July 2017	Dave Gorman/(01772) 534261

Reason for inclusion in Part II, if appropriate

N/A

Terms of Reference

Audit, Risk and Governance Committee

Statement of purpose

1 The Audit, Risk and Governance Committee is a key element of Lancashire County Council's corporate governance. It provides an independent and high-level focus on the risk management, audit, assurance and reporting arrangements that underpin good governance and financial standards.

2 The primary purpose of the committee is to provide independent assurance to the members (being those charged with governance) of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

3 The committee's members should therefore behave objectively and independently in their deliberations and decisions.

4 The committee is also required to fulfil other functions relevant to its overall responsibilities as required by the Council. In particular, the committee oversees the Council's treasury management activity.

Governance

The committee will:

5 Review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

6 Review and recommend the code of corporate governance for adoption by the Council.

7 Review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

8 Consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

9 Consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

10 Consider the Council's arrangements for discharging its duties in relation to promotion and maintenance of high standards of conduct by members and co-opted members, in accordance with the Localism Act 2011.

Risk management and control

The committee will:

11 Monitor the effective development and operation of the risk management framework and processes across the Council.

12 Monitor progress in addressing risk-related issues reported to the committee.

13 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

14 Review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

15 Monitor the counter-fraud strategy, actions and resources.

Internal audit

The committee will:

16 Approve the internal audit charter.

17 Approve the risk-based internal audit plan, including the Internal Audit Service's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

18 Approve significant interim changes to the risk-based internal audit plan and resource requirements.

19 Make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

20 Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.

b. Regular reports on the results of the quality assurance and improvement programme.

c. Reports on instances where the Internal Audit Service does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

21 Consider the head of internal audit's annual report:

a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement.

b. The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion, which will assist the committee in reviewing the annual governance statement.

22 Consider summaries of specific internal audit reports as requested.

23 Receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.

24 Contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

25 Support the development of effective communication with the head of internal audit.

26 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

External audit

The committee will:

27 Consider appointment of the Council's external auditor proposed by the appointing person under the Local Audit (Appointing Person) Regulations 2015 and assess whether there are any valid reasons for the Council to object.

28 Approve the letters of representation required by the external auditor and consider the external auditor's annual letter, audit opinion, relevant reports, and the report to those charged with governance.

29 Consider specific reports as agreed with the external auditor.

30 Comment on the scope and depth of external audit work and to ensure it gives value for money.

31 Commission additional work from the external auditor as necessary.

Financial reporting

The committee will:

32 Review and approve the annual statement of accounts of the Council and the Lancashire Pension Fund. Specifically, it will consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit work that need to be brought to the attention of the Council.

33 Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

The committee will:

34 Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements; and internal and external audit functions.

35 Prepare a report annually on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Treasury management

The committee will:

36 Oversee and scrutinise the Council's treasury management function, receiving regular advice and reports on treasury management activity.

37 Consider and recommend the treasury management strategy for Council's approval.

38 Consider and recommend changes to the borrowing and investment strategy for Council's approval.

39 Consider and recommend the prudential indicators for Council's approval.

40 Consider and recommend the treasury management indicators for Council's approval.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2018

Electoral Division affected: (All Divisions);

Accounting Policies Applicable to the Statement of Accounts 2017/18
(Appendix 'A' refers)

Contact for further information:
Neil Kissock, Tel: (01772) 536154, Director of Finance
neil.kissock@lancashire.gov.uk

Executive Summary

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices, for each financial year ending 31 March.

In preparing the Statement of Accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring they are applied consistently.

The existing accounting policies have been reviewed to ensure that they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting.

The accounting policies to be applied in the preparation of the Statement of Accounts 2017/18 are set out at Appendix 'A'.

There are no proposed changes to the accounting policies for 2017/18 as compared to the previous year.

Recommendation

The Committee is recommended to approve the accounting policies as set out at Appendix 'A'.

Background and Advice

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices, for each financial year ending 31 March. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC) supported by International Financial Reporting Standards (IFRS).

Lancashire County Council

In preparing the accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting the financial statements.

The Council's accounting policies are reviewed annually to ensure that they remain current and comply with proper accounting practice.

The accounting policies to be applied in the preparation of the Statement of Accounts for 2017/18 are set out at Appendix 'A'.

There are no proposed changes to the accounting policies for 2017/18 as compared to the previous year.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The failure to produce a Statement of Accounts in line with the CIPFA Code of Practice may result in an adverse opinion from the Council's external auditors.

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

Policy

General principles

Accruals of expenditure and income

Council tax and non-domestic rates income

Employee benefits

Events after the reporting period

Financial instruments

Government grants and other contributions

Group accounts

Heritage assets

Investment property

Leases

Long term contracts

Overheads and support services

Pooled budgets

Prior period adjustments, changes in accounting policies, estimates and errors

Private finance initiative (PFI)

Property, plant and equipment

Provisions, contingent assets and contingent liabilities

Reserves

Revenue expenditure funded from capital under statute (REFCUS)

Schools

Value added tax (VAT)

General principles

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end of 31 March 2018. The Accounts and Audit (England) Regulations require the Council to produce an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and the accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

Accruals of expenditure and income

The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of when cash payments are made or received. In particular:

- income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council tax and non-domestic rates income

Both council tax and non-domestic rates are collected by the 12 Lancashire district councils (billing authorities) on behalf of the County Council.

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. Regulations determine the amount of council tax and non-domestic rates that must be included in the Council's general fund, therefore, the difference between the income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund is charged to the collection fund adjustment account through the movement in reserves statement.

The year end balance sheet includes the Council's share of debtors (arrears and collection fund surpluses), creditors (prepayments, overpayments and collection fund deficits) and provisions (non-domestic rates appeals).

Lancashire has a non-domestic rates pool which was established on 1 April 2016. It comprises the County Council and most but not all of the local authorities in Lancashire, with Ribble Valley Borough Council designated as lead authority. Lancashire County Council will receive 10% of the overall retained levy with each district within the pool retaining 90% of their levy.

In the Lancashire non-domestic rates pool each council bears its own risk and takes its own reward under the pool agreement.

The net retained levy for the Council is shown within non-domestic rates retention income in the comprehensive income and expenditure statement, along with the Council's own share of growth achieved in the year.

Employee benefits

Employee benefits payable during employment

Short-term employee benefits including wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis in the comprehensive income and expenditure statement, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-employment benefits

The Council recognises the cost of post-employment benefits in the cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, statutory provisions require that the charge made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement.

There are three pension schemes for Council staff. They are all defined benefit schemes.

Defined benefit scheme - the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Pension scheme	Administered by
Teachers' pension scheme	Capita Teachers' pensions on behalf of the Department for Education (DfE)
Local government pension scheme	Lancashire County Council
NHS pension scheme	NHS Business Services Authority on behalf of the Secretary of State for Health

Teachers' pension scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. Therefore, the scheme is accounted for as if it were a defined contributions scheme: no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

Lancashire County Pension Fund

The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. Liabilities are discounted to their value at current prices using a discount rate.

Projected unit method - an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projected earnings for current employees.

The assets of the local government pension fund attributable to the Council are included in the balance sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price;
- property – market value.

The change in the net pension liability is analysed into the following components:

Component	Description	Treatment
Service costs		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non-distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.
Re-measurements		
Return on plan assets	This is a measure of the return on the investment assets held by the plan for the year.	Charged to the pensions reserve as other comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Lancashire County Pension Fund.

Events after the reporting period

Events may occur between the balance sheet date and the date the accounts are authorised for issue which might have a bearing upon the financial results of the past year.

Where an event occurring after the balance sheet date provides evidence of conditions that existed at the balance sheet date, the amounts recognised in the statement of accounts are adjusted.

Where an event that occurs after the balance sheet date is indicative of conditions that arose after the balance sheet date, the amounts recognised in the statement of accounts are not adjusted, but where this would have a material effect, it is disclosed in the notes to the accounts.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

Financial instruments

Financial instruments arise when contracts create financial assets and liabilities, and these are recognised on the Council's balance sheet. Typical financial assets include bank deposits, investments and loans by the Council and amounts receivable, whilst financial liabilities include amounts borrowed by the Council and amounts payable.

Financial assets

Financial assets are classified into three types:

Loans and receivables

Assets that have fixed or determinable payments but are not quoted in an active market for example term deposits made with UK domiciled banks.

Loans and receivables are initially measured at fair value and are subsequently carried at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

Available for sale assets

Assets that have a quoted market price and include, for example, investment bonds such as UK local authority bonds and UK Treasury gilt edged securities.

Available for sale assets are initially recognised and carried at fair value.

Where the assets have fixed or determinable payments, annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the comprehensive income and expenditure statement when it becomes receivable by the Council.

Values are based on the following principles:

- instruments with quoted market prices – the sale or bid market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis and;
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value (other than impairment losses) are balanced by an entry in the available for sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available for sale financial assets. Where impairment losses have been incurred, these are debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any net gain or loss for the asset accumulated in the available for sale reserve.

If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured against any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the available for sale reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Fair value through profit and loss

Assets which are held primarily for trading or have a recent history of being traded.

Fair value through profit and loss assets are initially recognised on the balance sheet and subsequently measured and carried at fair value.

Any gains or losses that arise on the de-recognition of the assets are credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Any unrealised gains and losses are also credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Unrealised gains and losses are the amounts that arise through the change in market value of financial instruments before they mature or are sold.

Impairment of financial assets

If assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made, the asset is written down and a charge made to the relevant service or to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Financial liabilities

Financial liabilities are initially recognised on the balance sheet at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable, are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The amount presented in the balance sheet is the outstanding principal repayable plus accrued interest. Interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, in the year of repurchase/settlement. However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from, or added to the amortised cost of the new or modified loan and the write-down to the comprehensive income and expenditure statement is spread over the life of the loan.

Where premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan, against which the premium was payable or discount receivable when it was repaid.

Government grants and other contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution, are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

Group accounts

The Council carries out its activities through a variety of undertakings, either under ultimate control or in partnership with other organisations. Those considered to be material are included in the group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. An entity could be material but still not consolidated (if all of its business is with the Council and eliminated on consolidation) – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

The Council has a material interest in an external entity and therefore group accounts have been prepared.

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The collection has an indeterminate life and is subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

The valuation of the Council's heritage assets has included a degree of estimation. With respect to the museum's collection, those assets considered to have a value of £50,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items for which is not considered to be economic to value each item separately. Therefore, a sample of items was valued by the museums staff. The resulting value was then used to give an estimated value of the whole collection. It is considered that the result provides a fair reflection of the value of the Council's holding.

The Council has a detailed acquisitions and disposal policy, further information on which can be obtained from the Council. Disposals will not be made with the principal aim of generating funds. It is considered that the collection has a long term purpose and, therefore, there is a strong presumption against disposal. If any items are thought to be appropriate for rationalisation, the Museums Association Code of Practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location for an item before any consideration of final disposal is made.

Investment property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or, is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the balance sheet date. Gains and losses on revaluation are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and charged to the capital adjustment account.

Leases

Leases are classed as finance leases, where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Finance lease debtors are recognised in the balance sheet on commencement, at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

Long term contracts

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services, with the works and services received under the contract during the financial year.

Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

Pooled budgets

The Council is the host partner of the pooled funds in respect of learning disability services and the Better Care Fund. The arrangements are made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

The arrangements are accounted for as joint operations and, therefore, the Council accounts for its share of the funds' assets, liabilities, expenditure and income.

Prior period adjustments, changes in accounting policies, estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or, the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively, by amending opening balances and comparative amounts for the prior period.

Private finance initiative (PFI)

PFI contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. As the Council is deemed to control the services that are provided under the PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on the balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability, for amounts due to the scheme operation to pay for the capital investment.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement;
- finance cost – an interest charge on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

Deductions from the unitary payment

The PFI contract provides for deductions from the unitary payment in the case of sub-standard performance or when the facilities are unavailable.
Deductions for sub-standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from unavailability of the property are apportioned pro rata to the proportions of the service and property elements of the unitary payment:

- a reduction for part or all of the property being unavailable for use – this will first be accounted for as an abatement of the contingent lease rentals, then as finance costs if contingent rents are insufficient and;
- a reduction in the price paid for services whilst services are not being provided, accounted for as a reduction in the amount paid for the affected services.

Deductions of either type are accounted for when the Council's entitlement has been established and it is probable that the Council will be able to make the deduction.

Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and, the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Componentisation

Where a property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Measurement

Assets are initially recognised at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the Council will initially be recognised at cost. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase, is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the balance sheet using the following measurement bases:

Category	Measurement basis
Infrastructure, community assets, assets under construction	Depreciated historical cost
Surplus assets and investment properties	Fair value – highest and best
All other assets	Existing use value

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets, principally furniture and equipment, that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Each year an estimate of the total current value of all operational land and building assets is calculated by applying local movement in valuation for similar assets and a range of indices to the carrying amounts of those assets. Indices are used to support market-based evidence that valuations are kept up to date rather than being used to calculate the carrying value of the assets. The revaluation programme is managed so that this estimate is not materially different to the carrying amount in the balance sheet.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains, unless the gain reverses a loss previously charged to a service. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Valuations are undertaken internally by Lancashire County Council's estates service.

The valuations for specialist operational properties are undertaken by external professional valuers.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

Disposals and non-current assets held for sale

Surplus assets are defined as assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale. Only when it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction within the coming year, is it reclassified as an asset held for sale.

Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of:

- their carrying amount before they were classified as held for sale. In this case the carrying amount is adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale.
- their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet is written off to the other operating expenditure line in the comprehensive income and expenditure statement, as part of the gain or loss on disposal. Disposal costs are shown in other operating expenditure in the comprehensive income and expenditure statement. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement, also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the capital receipts reserve, and can traditionally only be used for new capital investment or, be set aside to reduce the Council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

Depreciation

Depreciation is provided for on property, plant and equipment assets, by the systematic allocation of their depreciable amounts over their useful lives.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
Land	Not depreciated
Buildings	Useful life as determined by the valuer
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years depending upon the nature of the asset
Roads and highways infrastructure	10-120 years depending upon the nature of the asset

Community assets	Not depreciated
Assets under construction	Not depreciated
Investment properties	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

Depreciation is charged from the month of acquisition until the month of disposal.

Depreciation is also calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the revaluation reserve to the capital adjustment account.

Charges to revenue for non-current assets

Services are charged with the following amounts to record the cost of holding property, plant and equipment during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the revaluation reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis determined in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are, therefore, replaced by the MRP in the earmarked reserves balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement, for the difference between the two.

Provisions, contingent assets and contingent liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential and, a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement, in the year the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not, that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that the outflow of resources will be required or, the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or, to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year. The reserve is then appropriated back into the general fund in the movement in reserves statement, so that there is no net charge against council tax for the expenditure.

Certain reserves are held for technical accounting purposes in respect of non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund to the capital adjustment account reverses out the amounts charged so that there is no impact on the level of council tax.

Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools lies with the local authority. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

Schools' non-current assets (school buildings and playing fields) are recognised on the balance sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or, where the school or the school governing body own the assets or have had rights to use the assets transferred to them.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the Council's property, plant and equipment as the Council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Department for Education.

DSG is allocated to budgets delegated to individual schools and centrally retained Council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under children's and education services.

Value added tax (VAT)

VAT payable is included as an expense, only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2018

Electoral Division affected:
(All Divisions);

Treasury Management Policy and Strategy 2018/19
(Appendices 'A' and 'B' refer)

Contact for further information:
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Executive Summary

This report proposes the Treasury Management Policy and Strategy for 2018/19 as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (2011). It includes the county council's borrowing and investment strategies and the proposed Minimum Revenue Provision policy, together with the treasury management prudential indicators which seek to ensure that the council's borrowing levels remain both sustainable and affordable.

Recommendation

That the Committee recommends that Full Council approves the Treasury Management Policy and Strategy for 2018/19 set out at Appendix 'A' and 'B' respectively.

Background and Advice

Treasury management is the management of the council's investments and cash flows, its banking, money market and capital market transactions; it also includes the effective control and management of the risks associated with these activities, ensuring that the council gets the best performance for the least risk. The overarching policy is set out at Appendix 'A'.

The Treasury Management Strategy is at Appendix 'B' and sets out the Council's approach to ensuring the security and liquidity of its investments, whilst having regard to investment returns in order to protect the value of the funds. It also outlines the council's strategy for financing existing borrowing and future capital borrowing requirements, with the aim of securing the required funds at the lowest possible rate.

The Minimum Revenue Provision (MRP) is a prudent charge Local Authorities are required to make to the revenue account to provide for the repayment of debt and other credit liabilities (mainly finance leases or PFI contracts).

Lancashire County Council

The strategy includes the county council's policy in relation to the MRP, together with the treasury management prudential indicators which seek to ensure that the council's borrowing levels remain both sustainable and affordable.

Although the impact of treasury management decisions are considered over the long term, the CIPFA and DCLG codes require that the strategies are approved annually. The key changes in the proposed 2018/19 Treasury Management Strategy are:

- The operational limit of investments has been reduced to reflect the forecast reduction in reserves held by the county council.
- The limits for the approved counter parties included in the investment strategy have been reduced accordingly.
- The investment strategy proposes allowing investment in credit and multi-asset funds. This is in line with the aim of increasing the diversification of investments held.

Consultations

Arlingclose, the county council's external treasury management advisers have been consulted on specific elements described in the strategy document.

Implications:

This item has the following implications, as indicated:

Risk management

The council, having adopted the "Prudential Code", is required to prudently manage its investments and borrowing. A failure to do so could expose the council to undue risks.

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

Paper	Date	Contact/Tel
CIPFA Treasury Management Code of Practice	2011	Paul Dobson/ (01772) 534740

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Policy Statement

The council's financial regulations require it to maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, forming a cornerstone of its effective treasury management.

Definition
The council defines its treasury management activities as:

- the management of investments and cash flows,
- its banking, money market and capital market transactions;
- the effective control of the risks associated with those activities; and
- the pursuit of optimum performance consistent with those risks.

Risk Appetite
The council's appetite for risk within its treasury management activities is low. A premium is placed on the security of capital and credit risk management and on the maintenance of financial stability in terms of managing inflation and interest rate risk, their effects on the council's reserves and balances and on the cost of borrowing.

Risk management
The council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on how the actions taken and the financial instruments entered into result in reduced risk exposure.

Value for money
The council acknowledges that effective treasury management provides support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy
The council aims to fund its capital expenditure in a cost effective manner. This will involve using short term and variable rate loans when these are seen as being the most beneficial strategy. However consideration will be given to long term funding needs and the stability to budgets that fixed interest loans provide. The council will also periodically evaluate debt restructuring opportunities of the existing portfolio.

The council will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities 2011* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year. The council also has regard to other relevant CIPFA publications such as the *Treasury Risk Toolkit for Local Authorities 2012* and *Using Financial Instruments to Manage Risk 2013*.

Cash Backing of Reserves
The council is committed to the prudent management of its finances. In pursuit of this objective it should ensure that it holds investment balances sufficient to meet the value of those balance sheet items such as reserves and provisions which will be drawn down as cash. These investment balances will have due regard to the anticipated timing for the drawdown of the cash backed reserves and provisions. In particular the planned use of reserves in the council's revenue budget will impact on the level of investments held.

Investment policy
The council’s primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, through either credit events or loss of value by inflation erosion or interest rate changes, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of the council's services is an important, but secondary, objective.

The council will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Treasury Management Strategy 2018/19

Under the Local Government Act 2003, local authorities must have regard to statutory proper practices in their treasury management activities. In effect this means the council must adhere to the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' 2011 edition (the CIPFA Code), and the Department for Communities and Local Government (DCLG) guidance on local authority investments.

The CIPFA code requires the county council to approve a Treasury Management Strategy and the DCLG guidance requires an investment strategy to be approved before the start of each financial year.

Both regulations are potentially subject to change and at the time of writing a revised version of both codes has been published.

The strategy also has regard to other CIPFA treasury management publications such as in relation to risk management in the 'Treasury Risk Toolkit for Local Authorities' (2012), and the use of derivatives in 'Using Financial Instruments to Manage Risk' (2013.) The council is also required to publish a policy on its Minimum Revenue Provision (MRP). This does not need to form part of the Treasury Management Strategy, but as it impacts on treasury management activity it is published as part of this report.

As such, in line with these various requirements, this strategy includes:

- Borrowing Strategy
- Policy on Borrowing in Advance of Need
- Investment Strategy
- Policy on Use of Financial Derivatives
- Prudential Indicators (Annex A)
- MRP statement (Annex B)

In conjunction with the detailed treasury management practices approved by the section 151 officer, the strategy provides the policy framework for the engagement of the council with financial markets in order to fund its capital investment programme, to maintain the security of its cash balances and protect them from credit, liquidity, inflation and interest rate risk.

Strategic Objectives of the Treasury Management Strategy

The council's treasury management strategy is designed to achieve the following objectives:

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 manage interest and inflation rate risks appropriately.
d) To maximise investment returns commensurate with the county council's policy of minimising risks to the security of capital and its liquidity position.

Setting the Treasury Management Strategy for 2018/19

In setting the treasury management strategy, the council must consider the following factors which will have a strong influence over the appropriateness of treasury management plans:

- economic forecasts;
- prospects for interest rates;
- the current structure of the council's investment and debt portfolio;
- estimates of future borrowing and investment requirements.

Economic Forecast

The forecast economic conditions include an expectation that growth in the next few years will be low. Negotiations on the UK exit from the European Union and future trade relations is causing uncertainty. The progress and final outcome of these negotiations may impact on economic growth not only in 2018/19 but also in future years. In his budget in November 2017, the Chancellor of the Exchequer announced forecasts of growth which were significantly less than those given in the budget of spring 2017. The forecast was as follows:

	November 2017 Budget	Spring Budget
2017/18	1.5%	1.8%
2018/19	1.4%	1.6%
2019/20	1.3%	1.8%
2020/21	1.5%	1.9%
2021/22	1.5%	2.0%

Inflation increased during 2017 with the Consumer Price Index (CPI) rising to 3.0% in September. This was largely as a result of the impact of the fall in the value of sterling following the Brexit decision but it is anticipated that inflation will fall from this position. The forecast CPI in the Chancellor's budget was as follows:

2017/18	3.0%
2018/19	2.2%
2019/20	1.8%
2020/21	2.0%
2021/22	2.0%

With inflation increasing and unemployment remaining low during 2017/18 the Bank of England believed that the extent of spare capacity in the economy seemed limited and the pace at which the economy could grow without generating inflationary pressure had fallen over recent years. Therefore the Monetary Policy Committee of the Bank of England concluded that a rise in interest rates was appropriate. In

November 2017 they raised the base rate for the first time in a decade with the base rate increasing from 0.25% to 0.50%

Looking forward, the forecast from the Council's treasury advisers, Arlingclose, is for UK Bank Rate to remain at 0.50% during 2018/19. The Monetary Policy Committee emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher, short term, interest rates are subdued with on-going decisions remaining data-dependant and negotiations on exiting the EU casting a shadow over monetary policy decisions. The risks to the Arlingclose forecast are broadly balanced on both sides.

The Current Structure of the Portfolio

The council's treasury portfolio (net of transferred debt) as at 30th November 2017 was as follows.

	£m	Interest Rate
Call accounts	25.030	0.15%
Local authority deposits	82.800	1.23%
Government, local government and supra-national bonds	170.140	1.41%
Corporate bonds	194.130	0.80%
Total Investments	472.100	
Short term loans	462.000	0.68%
Shared investment scheme	79.130	0.25%
Long term loans - local authorities	97.500	1.61%
Long term loans - PWLB	338.850	3.07%
Long term loans – LOBO	50.000	6.16%
Total Borrowing	1,027.480	
Net Borrowing	555.380	

The average rate for borrowing in 2018/19 included in the current Medium Term Financial Strategy (MTFS) of the council is 1.84% and the average rate of return on investments is 1.15%.

Forecast Position

In the medium term the council borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which exists at 30 November, adjusted for transferred debt. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

	31/3/2018	31/3/2019	31/3/2020	31/3/2021
	£m	£m	£m	£m
Capital Financing Requirement	1,060.298	1,104.375	1,111.017	1,080.851
Less other long term liabilities	157.300	151.200	145.100	139.000
Borrowing CFR	902.998	953.175	965.917	941.851
Less external borrowing	787.936	383.775	343.062	146.162
Borrowing requirement	115.062	569.400	622.855	795.689
Reserves and working capital	(398.984)	(293.532)	(250.867)	(247.367)
Borrowing/(investment) need	(283.922)	275.868	371.988	548.322

The CFR forecast in the table above includes the latest forecast of the funding of the approved Capital Programme. The programme assumes expenditure funded by borrowing of:

2017/18 £84.718m
2018/19 £73.609m
2019/20 £38.644m
2020/21 £ 3.455m

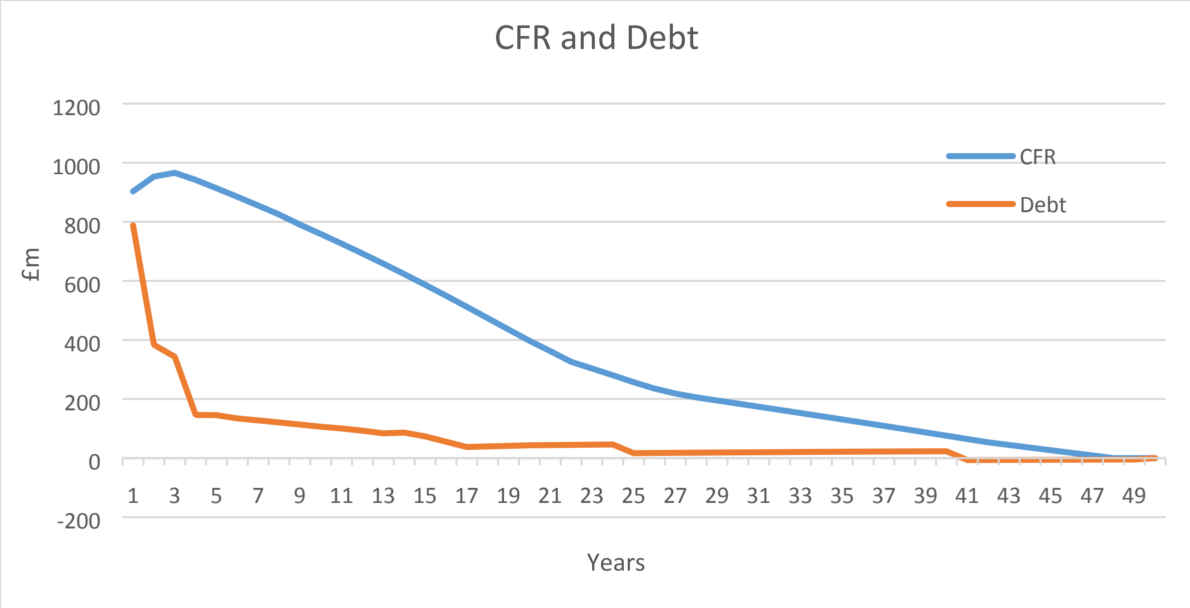
Clearly, these will be subject to change as the capital programme develops.

The table shows that from 2018/19 onwards the council has a borrowing requirement even if it followed a policy of internal borrowing. However, the council has in recent years pursued a policy to hold as investments a sum as close as possible to the cash value of its balance sheet. Consideration is also given to matching the duration of the cash balance anticipated. This policy will continue in 2018/19 but it will be regularly reviewed to ensure value for money is achieved.

Borrowing Strategy

The borrowing strategy will be determined by the need for the council to borrow and the impact of the economic climate on the prevailing cost and availability of borrowing**.**

The council borrows for capital purposes with the underlying need to borrow for capital purposes being measured by the Capital Financing Requirement (CFR). CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the council's total debt should be lower than its highest forecast CFR over the next three years. The council has a borrowing requirement over the next three years, however in assessing the need to borrow consideration is given to the requirement to borrow for the longer term. The graph below compares the estimated CFR given the capital programme, MRP policy and the debt maturity position at 30 November 2017.



The graph demonstrates that there is a need to borrow over the long term although the amount required reduces over time. There is a large requirement in the early years. This is due to the impact of new capital schemes in the programme and the need to replace existing debt as the council has followed a policy of taking short term loans to take advantage of existing market conditions. In addition to the borrowing for capital there is likely to be borrowing requirements for the shared investment scheme, City Deal and premiums which are outside the CFR.

The council's borrowing strategy continues to balance the issues of affordability while ensuring the borrowing needs are met and providing some certainty of cost over the long term.

With short-term interest rates currently lower than long-term rates, it has been more cost effective in the short-term to borrow short-term. Given the economic outlook, significant increases in interest rates are not forecast in the medium term so this situation is likely to continue. However, there is significant economic uncertainty and rates are at historically low levels. Therefore the benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates may rise. As a result the council may borrow additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

There are a range of options available for borrowing in 2018/19:

- Variable rate borrowing is expected to be cheaper than fixed rate long term borrowing and will be attractive during the financial year, particularly as variable rates are closely linked to bank rates.
- Under 10 years rates are expected to be lower than long term rates, so this opens up a range of choices that may allow the council to spread maturities away from a concentration on long dated debt.

- Additionally, although it is not felt appropriate at this time, borrowing can be achieved through the issuance of a 'commercial paper', euro medium term note (EMTN).
- There is also the option to add the LGA's Municipal Bond Agency to the council's list of approved borrowing counterparties but this would be subject to further approval from a meeting of Full Council.

Against this background, the section 151 officer will, in conjunction with the council's advisers, monitor the interest rate situation closely and will adopt a pragmatic approach to delivering the objectives of this strategy within changing economic circumstances. All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria:

a) Overall need namely whether a borrowing requirement to fund the capital programme or previous capital investment exists;
b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance;
c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost,
d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.

All long term decisions will be documented reflecting the assessment of these criteria.

Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board.
- UK Local Authorities.
- any institution approved for investments including high quality supranational banks such as the European Central Bank.
- UK public and private sector pension funds.
- Any other financial institution approved by the Prudential Regulation Authority, which is part of the Bank of England and is responsible for the regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms.
- Capital market bond investors either over the counter or through electronic trading platforms

Borrowing Instruments

The council may only borrow money by use of the following instruments:

- Bank overdrafts.
- Fixed term loans.
- Callable loans or revolving credit facilities where the council may repay at any time (with or without notice).

- Callable loans where the lender may repay at any time, but subject to a maximum of £150m in total.
- Lender's option borrower's option (LOBO) loans, but subject to a maximum of £100m in total.
- Bonds, notes, bills, commercial paper and other marketable instruments.
- Sale and repurchase (repo) agreements.

Loans may be borrowed at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate risk approved in this Treasury Management Strategy.

Debt Restructuring

The council regularly monitors both its debt portfolio and market conditions to evaluate potential savings from debt restructuring.

Other borrowing

The county council may borrow for short periods of time to cover unexpected cash flow shortages and to take deposits on the shared investment scheme. Also to provide cash flow support for the Preston, South Ribble and Lancashire City Deal project. This is to cover the gap between the cost of construction of infrastructure and the payment of contributions from other organisations including the government and developers. This borrowing is temporary but will be reflected within the Prudential Limits at Annex 'A'.

Policy on Borrowing in Advance of Need

The council will not borrow more than or in advance of need with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need is appropriate in the following circumstances:

a) Where there is a defined need to finance future capital investment that will materialise in a defined timescale of 2 years or less; and
b) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or
c) Where in the view of the section 151 officer, based on external advice, the achievement of value for money would be prejudiced by delaying borrowing beyond the 2 year horizon.

Having satisfied any of these criteria, any proposal to borrow in advance of need would be reviewed against the following factors:

a) Whether the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets with the value for money of the proposal fully evaluated.
b) The merits and demerits of alternative forms of funding.
c) The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

All decisions will be documented reflecting the assessment of these circumstances and criteria.

Investment Strategy

The council holds reserves and other cash items on its balance sheet which are invested. In investing these cash balances the council follows guidance issued by CIPFA and DCLG which both require the priorities to be the: Security of capital and Liquidity of investments.

The council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the council is low in order to give priority to security of its investments.

Approved Counterparties

The counterparty credit matrix is at the heart of the council's Treasury Management Strategy and has always been conservatively constructed to protect the council against credit risk whilst allowing for efficient and prudent investment activity.

However, the council does not rely solely on credit ratings in assessing counterparties. Other market information is also monitored such as information from the credit default swap (CDS) market and any press releases in general. In this way ensuring the council transacts with only the highest quality counterparties**.**

The council requires very high credit ratings for an organisation to be considered a suitable counterparty for investment purposes. Despite a number of downgrades within the financial sector the council has not reduced the credit ratings required from its counterparties, but has maintained the existing very high ratings required for short, medium and long term investments. These are set out as follows:

For short term lending of up to 1 year, the short term ratings from the ratings agencies be used and that a counterparty must have a minimum of the following:

Moody's	P1
S&P	A1
Fitch	F1

Short term ratings were specifically created by the agencies for money market investors as they reflect specifically the liquidity positions of the institutions concerned.

For medium term investments in the form of tradeable bonds or certificates of deposit (1 to 5 years, where immediate liquidation can be demonstrated), a blended average of the ratings will be taken (averaging across all available ratings), with a minimum of:

Long term	AA3/AA-,
Short term	P1/F1+/A1+

For longer term investments (5 years and above) in the form of tradeable bonds where immediate liquidation can be demonstrated, a blended average of the ratings will be taken, with a minimum of:

Long term AA2/AA
Short term P1/A1+/F1+

The detailed calculation methodology of the blended average will be agreed with the council's advisers and set out in the treasury management practices document.

If the counterparty of an existing investment falls outside the policy due to a change in credit rating, full consideration will be made, taking into account all relevant information, as to whether a premature settlement of the investment should be negotiated.

The minimum sovereign rating for investment is AA- with the exception of the UK. The UK's latest rating was issued by Moody's in September 2017 when they reduced the long term rating to Aa2.

Although the rating still falls within the current strategy it is not impossible as the Brexit process proceeds or if there is an economic downturn that there will be further downgrades. This could result in investments in UK government gilts, treasury bonds and bodies guaranteed by the UK government falling outside the Treasury Management strategy. However, even if there is a further reduction in the UK credit rating, the UK government is still deemed a safe investment. The government has never defaulted on its payments and as an ultimate solution it could prevent insolvency by printing money. Therefore it is proposed that the AA- minimum sovereign rating is not applied to the UK. However, given that this is theoretically increasing risk within the portfolio the limits on the holdings by maturity are as follows:

Maximum 1 year to maturity	£ 300m
Maximum maturity up to 1-5 years	£ 300m
Maximum maturity 5-10 years	£ 300m
Over 10 years	£ 500m

The table below shows the approved investment counterparties and limits:

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills & bodies guaranteed by UK Government	UK Government	500	500	No limit
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	300	No limit
Corporate Bonds (Short Term less than 1yr to maturity)	P1/A1/F1	50	200	1 year
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	300	5 years
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	200	No limit
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	300	300	3 years
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1 year
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	50	100	These investments do not have a defined maturity date
Bond Funds with weighted average maturity maximum 5 years	AAA Rated	50	100	These investments do not have a defined maturity date
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities.	AA- with cash or AA- for any collateral	300	300	25 years
Call accounts with UK and Overseas Banks (domiciled in UK)	P1/A1/F1 Long term A Government support	100	200	Overnight in line with clearing system guarantee (currently 4 years)
Unsecured deposits/CDs to Banks and Building Societies	AA	10	50	1 year
Equity, property, multi asset or credit Pooled Funds	Ratings are not produced for such Funds	50	100	These investments do not have a defined maturity date

Other than call account and operational bank accounts the council does not currently make unsecured investments with banks. This is as a result of the risk following the implementation of 'bail-in' legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future. However the option to undertake small scale lending, widely spread, may have some value and is therefore included in the policy.

The council has previously approved the use of property and equity pooled funds if they are deemed appropriate for the overall treasury management portfolio. In addition, multi asset and credit funds exist. It is proposed that investment can also be made in these funds but that overall no more than £100m is invested in pooled funds.

In addition the council can invest with other local authorities. Following the downgrade of the UK, some local authorities saw a reduction in their ratings. Therefore, consideration has been given to reducing the risk associated with the council's investment with other local authorities. Arlingclose state that they are comfortable with clients making loans to UK local authorities for periods up to four years, subject to this meeting their approved strategy. For periods longer than four years they recommend that additional due diligence is undertaken prior to a loan being made. On this basis it is proposed that the investments to local authorities are limited as follows:

	Maximum individual investment	Maximum total investment	Maximum period
Up to 4 years	£20m	£200m	4 years
Over 4 years	£20m	£100m	10 years

The council's day to day transactional bank, National Westminster, lies outside the investment credit matrix but emergency overnight deposits may be placed with them from time to time. In practice the balances are considered on a daily basis and kept as near to zero as possible. The balance on any day is typically below £1m.

Although not treated as an investment any monies would be subject to bank bail-in if there was a bank failure. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity.

Types of Investment

The DCLG guidance defines two types of investment, firstly specified investments which are those:

- denominated in pound sterling,
- due to be repaid within 12 months of the arrangement,
- not defined as capital expenditure by legislation, and
- invested with (one of):

    a) the UK Government,
    b) a UK local authority, parish council or community council, or
    c) a body or investment scheme of “high credit quality”

Any investment not meeting the definition of a specified investment is classed as non-specified. The council will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

The operational total limit on long-term investments was £450m in 2017/18 but with the anticipated reduction in the council's reserves this is to be reduced to £300m in 2018/19. Investment levels can be made above this with the agreement of the section 151 officer.

Investments are held in government and supranational securities, which although are highly liquid have maturities in excess of 364 days. In addition the council holds a secondary liquidity investment book of very high quality covered floating rate notes (FRNs) which are typically issued for a 3 to 5 year term. Because these instruments have their rates re-fixed, at current market rates every 3 months, their price shows a very low sensitivity to changes in market rates, so that although under the current accounting regulations they are classified as long term instruments, in practice they operate as fixed instruments with a maximum of 3 months to maturity and can be liquidated with one or two days' notice. Therefore the 'long term investments' total contains instruments which operate with a short term horizon and which are central to achieving the council's security and liquidity objectives.

In recent times, a wider range of investment instruments within the area of sterling deposits have been developed by financial institutions. All of these afford similar security of capital to basic sterling deposits but they also offer the possibility, although never of course the certainty, of increased returns. The section 151 officer will, in liaison with the council’s external advisers, consider the benefits and drawbacks of these instruments and whether any of them are appropriate for the council. Because of their relative complexity compared to straightforward term deposits, most of them would fall within the definition of non-specified investments. Decisions on whether to utilise such instruments will be taken after an assessment of whether their use achieves the council's treasury management objectives.

Policy on the Use of Financial Derivatives

The council will only use financial derivatives (such as swaps, forwards, futures and options) on a standalone basis, where it can clearly be demonstrated that as part of the prudent management of the council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Many embedded derivatives are already used by local authorities across England and Wales including Lancashire, although unlike the government, commercial sector and other public service areas stand-alone derivatives have not generally been used.

A derivative is a financial instrument with three main features:

- The value changes in response to an underlying variable.
- The transaction requires no initial investment, or an initial net investment smaller than would be required for other types of contract with a similar expected response to market changes.
- The contract is settled at a predetermined future date.

The underlying variable represents an existing external risk for which the hedge is required. Examples are a specified interest rate, a commodity price, a credit rating, a foreign exchange rate or any other variable, however as the council's treasury activity is not directly exposed to all of these risks, for example foreign exchange or commodity prices, the council's use of derivatives would be restricted to the management and hedging of interest and inflation rate risk only.

The embedded and standalone derivatives which can be used by the council to manage interest rate risk are summarised as follows:

Class	**Use**	**Standalone**	**Embedded**
Forwards	To fix an interest or inflation rate for a single period in the future	Forward Rate Agreement (FRA), gilt lock, interest rate or gilt futures	Forward Deal
Swaps	To exchange interest or inflation rate exposures (eg. fixed to floating)	Interest or inflation rate swap (IRS), basis swap.	Variable rate deposit, Floating rate note
Purchased Options	The right but no obligation to fix an interest or inflation rate in exchange for paying a premium	Caps, floors, collars, swaptions, puts, calls	Callable loan Collared deposit

The council will not sell interest rate or inflation rate options, (i.e. give another party the right to fix a rate) since these cannot reduce the council's risk. The only exception is where a sold option is combined with a purchased option of equal or higher premium to create a collar.

There are two methods of engaging in derivative contracts, exchange traded or settled derivatives and over the counter (OTC) derivatives. The former are available in public markets and trade over a physical exchange with a clearing house acting as an intermediary and include futures and options. OTC contracts are privately negotiated and traded between two counterparties and can include swaps and forwards.

In a derivative contract both parties are often required to provide collateral (i.e. pools of valuable and liquid assets set aside specifically to back liabilities arising from the contract) to reduce credit risk. The method of assessing counterparty quality and suitability of collateral within the structure of the contracts is shown as follows:

Product	**Counterparty Quality**	**Security**	**Method**
Exchange traded or cleared product	Credit rating of exchange	Credit rating of Clearing agent	Margin netting
Bilateral FRAs and swaps assuming netting	Credit rating of counterparty	Full 2-way collateral arrangements	Types of collateral agreed and any haircuts
OTC Options	Credit rating of counterparty	Agreed full 2-way collateral	Types of collateral and haircuts
Intra LA swaps	Assumed Credit rating	2-way collateral (cash)	No haircut

The credit quality of the collateral acceptable to the county council will be determined by the credit rating of the counterparty or exchange, along with credit default swap prices which react much quicker than credit rating agencies and can be used as early indicators of credit or liquidity problems.

The following table defines the appropriate limits for collateral quality:

Counterparty type	**Documentation**	**Collateral types**	**CDS levels**	**Rating**
Exchange	MIFCA	Cash margins	<75bp	AA
Bank	ISDA/CSA	Cash and Government bonds	<100bp	A3
Insurer and Pension Fund	ISDA CSA	Cash and Government bonds	<100 (Insurers)	A3 (Insurers)
Local Authority	Contract	Cash and Government bonds	England/Wales None	England and Wales None

The council will only use derivative contracts to hedge existing risks. This is reflected in the limits below. The 100% upper limit means that the council has the option to hedge all of, but not more than, its interest rate risk if felt appropriate.

Exposure Metric	**Min Hedge**	**Max Hedge**	**Granularity**	**Tool**
Interest rate	0%	100%	0-3 months 3-6months, 6-12m months, 1 to 2 years, 2-5 years and 5 year blocks	FRA, Futures, Options, Swaps Swaption
Inflation rate	0%	100%	1 block	Swap, Swaption, Option

In addition hedge accounting will be used to periodically to test the effectiveness of the hedge. It is expected the hedge will work with between 80% and 125% effectiveness in accordance with International Accounting Standards. If the effectiveness is measured as falling outside these parameters, the structure of the hedge will be changed in response.

The calculation method of interest rate risk to be hedged and hedge effectiveness will be set out in the treasury management practices document.

At all times the council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management. However the council may need to seek its own legal advice.

Impact on the County Council's Revenue Budget

With base rates at exceptionally low levels, investment returns are likely to continue to be far lower than has previously been the case. However, in the knowledge that a portion of cash invested will not be required in the short term; and to protect against continued low investment rates; investments may be made for longer time periods, depending on cash flow considerations and the prevailing market conditions.

The performance target on investments is a return above the average rate for 7 day notice money.

The following table outlines the budget for the financing charges element of the council's revenue budget as reflected in the Medium Term Financial Strategy. This is based on the Minimum Revenue Provision policy set out at Annex 'B'.

	Revenue Budget 2017/18 £m	Revenue Budget 2018/19 £m	Revenue Budget 2019/20 £m	Revenue Budget 2020/21 £m
Minimum Revenue Provision	21.337	23.432	25.902	27.521
Interest paid	23.533	23.143	22.214	21.918
Interest earned	-7.912	-7.316	-6.854	-6.676
Grants received	-0.240	-0.220	-0.200	-0.180
Total	36.718	39.039	41.062	42.583

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. Provision has also been made for changing some of the borrowing to a long term fixed rate rather than the existing short term rates.

The position will be closely monitored by the section 151 officer and any changes will be reflected in a revised forecast and included in budget monitoring or MTFS reports presented to Cabinet.

DCLG Consultation on Local Government Investments

DCLG have issued a consultation paper on investments which proposes an effective date of 1 April 2018. This includes a new definition of investments, providing that investments "covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework under this Code."

In practice, this means that any loans given or investment in assets wholly for income generation purposes are covered by the Code. Under the proposed Code, loans for economic development purposes can be made even if they do not meet the strict criteria for security and liquidity. However, the Code will expect the loans to be proportionate to the overall portfolio and limits to be set on the maximum that can be loaned.

Similarly, councils can hold non-financial investments, which will normally involve a physical asset that can be realised to recoup the capital invested. The Code requires details on the assessment of risk and the action to be taken if the value of the asset no longer covers the investment.

If there are any required actions, including the setting of limits, they will be undertaken once the outcomes of the consultation paper are finalised.

Currently, the council does not make direct investments in property for income generation purposes.

PRUDENTIAL INDICATORS

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management in the Public Services Code of Practice (2011) as setting the framework of principles for its treasury management activities. In accordance with the requirements of these codes the council produces each year a set of prudential indicators which assist in the process of monitoring the degree of prudence with which the council undertakes its capital expenditure and treasury management activities. Specific indicators also provide limits with regard to certain types of activity such as borrowing. These indicators are a consequence of the activities set out within the Treasury Management Strategy.

Capital Expenditure and Financing

The total capital expenditure in each year, irrespective of the method of financing estimated to be incurred by the council is as follows:

Actual	Estimate			
2016/17	2017/18	2018/19	2019/20	2020/21
£144.653m	£155.271m	£161.392m	£59.928m	£4.797m

The estimated capital expenditure stated above will be financed by a mixture of borrowing, capital receipts, revenue contributions, grants and other contributions. A key control of the prudential system is the underlying need to borrow for capital purposes, which is represented by the cumulative effect of past borrowing decisions and future plans. This is shown as the capital financing requirement. 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. The estimate of the capital financing requirement for each year is as follows, and includes the impact of PFI obligations.

Actual	Estimate			
2016/17	2017/18	2018/19	2019/20	2020/21
£1,002.017m	£1,060.298m	£1,104.375m	£1,111.017m	£1,080.851m

Prudence and Affordability

CIPFA's Prudential Code for Capital Finance in Local Authorities states the following as a key indicator of prudence:

"In order to ensure that, over the medium term, net borrowing will only be used for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years".

The council's financial plans are prepared on this basis and, indeed the policy on borrowing in advance of need explicitly references this statement as part of the decision making criteria.

It is important to ensure that the plans for capital expenditure and borrowing are affordable in the long term. To this purpose the code requires an indicator which estimates the ratio of financing costs to the net revenue stream.

The financing costs are the interest payable on borrowing, finance lease or other long term liabilities and the amount defined by statute which needs to be charged to revenue to reflect the repayment of the principal element of the council's borrowing. Any additional payments in excess of the statutory amount or the cost of early repayment or rescheduling of debt would be included within the financing cost. Financing costs are expressed net of investment income.

The net revenue stream is defined as the amount required to be funded from government grants and local taxpayers, in effect the budget requirement. Estimates of the ratio of financing costs to net revenue (or budget requirement) are as follows:

2017/18	2018/19	2019/20	2020/21
4.79%	5.22%	5.46%	5.77%

The capital programme is being considered by the council and is not currently finalised. The indicators have been calculated including the cost of financing the borrowing already included in the programme. It assumes that any further new starts will be funded by grants or contributions and therefore borrowing is not required. It is estimated that the incremental council tax impact of the programme on taxpayers will be:

2018/19	2019/20	2020/21
£7.58	£8.36	£3.68

External Debt

The council is required to approve an "authorised limit" and an "operational boundary" for external debt. The limits proposed are consistent with the proposals for capital investment and with the approved treasury management policy statement and practices. The limits also include provision for the £150m cap on the shared investment scheme. The indicators are split between borrowing and other long term liabilities, such as PFI projects. It is proposed that this is an overall limit but the section 151 Officer can approve a switch between borrowing and other long term liabilities.

The 'authorised limit' is a prudent estimate of external debt, but allows sufficient headroom for unusual cash flow movements. Taking into account the capital plans and estimates of cash flow and its risks, the authorised limits for external debt are as follows:

	2017/18 Revised	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Borrowing	1,150	1,220	1,220	1,200
Other long term liabilities	185	185	185	185
TOTAL	1,335	1,405	1,405	1,385

The 'operational limit' for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the council's current plans. As required under the Code, this limit will be carefully monitored during the year. The proposed operational limits for external debt are:

	2017/18 Revised	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Borrowing	1,070	1,115	1,125	1,095
Other long term liabilities	160	160	160	160
TOTAL	1,235	1,275	1,285	1,255

The debt figures include transferred debt which is managed by the council on behalf of other authorities. The transferred debt included within the debt indicators is estimated as at the end of each year to be:

2017/18	£15.942m
2018/19	£15.079m
2019/20	£14.239m
2020/21	£13.661m

<u>Gross Debt and Capital Financing Requirement</u>

As a measure of prudence and to ensure that over the medium term debt is only used for a capital purpose, the prudential code requires a comparison of gross debt and the capital financing requirement. The following table shows the comparison for the council:

	As at 31 March			
	2018	2019	2020	2021
	£m	£m	£m	£m
Borrowing CFR	902.998	953.175	965.917	941.851
Estimated total borrowing	1,050.510	1,095.576	1,103.192	1,074.311

Borrowing above CFR Comprising:

Premiums	38.458	35.204	31.951	28.785
Shared Investment Scheme	60.815	60.815	60.815	60.815
Borrowing relating to other authorities	48.239	46.382	44.509	42.860

The gross debt is higher than the capital financing requirement. This is because certain borrowing is included in the total borrowing but does not count against the CFR. These include the shared investment scheme and the transferred debt.

Treasury Management Indicators

The indicators and limits relating to specific treasury management activities are set out as follows, with the 2017 information provided for reference.

Interest rate exposure

In order to control interest rate risk the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. 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	2017
Net Interest Payable at Fixed Rates	£50.400m	£9.300m
Net Interest Payable at Variable Rates	£5.000m	£4.300m
One year impact of a 1% rise in rates	£10.000m	£1.800m

Maturity structure of debt

Limits on the maturity structure of fixed debt help control refinancing risk

	Upper Limit	2017
Under 12 months	75%	47%
12 months and within 2 years	75%	5%
2 years and within 5 years	75%	26%
5 years and within 10 years	75%	6%
10 years and above	50%	16%

Investments over 364 days

Limit on the level of long term investments helps to control liquidity, although the majority of these investments are currently held in available for sale securities. The limit is an operational one and if required can be exceeded with the approval of the Director of Finance. The proposed operational limit is:

	Upper limit
Total invested over 364 days	£300m

Minimum Average Credit Rating

To control credit risk the council requires a very high credit rating from its treasury counterparties

	Benchmark	2017
Average counterparty credit rating	A+	AA+

Minimum Revenue Provision Statement 2018/19

This requirement for this annual statement to be approved by the county council arises from statutory guidance initially issued by the Department of Communities and Local Government (DCLG) in 2008 and updated in 2010. DCLG have recently issued a consultation paper including this subject area and this has been taken into consideration in producing this policy statement.

Local authorities are required to make a prudent charge to the revenue account in respect of the provision to repay debt and other credit liabilities (mainly finance leases or PFI contracts). This is referred to as the Minimum Revenue Provision (MRP).

Guidance issued by DCLG provides four options which can be used for the purpose of calculating the MRP. However the legal requirement is to set a prudent charge and therefore authorities are free to move away from the guidance if they feel it is appropriate.

The Four Options Explained

1. Regulatory method

Before the Prudential Code system of capital finance was introduced in 2004 the MRP was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of the Capital Financing Requirement, which is derived from the balance sheet and broadly represents the outstanding debt used to finance fixed assets. However, to avoid changes in the charge to revenue in 2004/5 an adjustment figure was calculated which would then remain constant overtime. For technical accounting reasons this methodology would have led to an increase in the MRP and would therefore have had an impact upon the council's budget, so this method has not been used and is not recommended for future use.

2. Capital Financing Requirement (CFR) method

This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement. The CFR is derived from the balance sheet and represent the value of the fixed assets for which financing provision has not already been made. This method of calculation has been used at the council since the introduction of the MRP in 2004.

3. Asset Life Method

Guidelines for this method allow for an MRP to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways as follows:

- A calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset or,
- An annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

The DCLG consultation paper proposes maximum asset lives to be used. These are 50 years for freehold land and 40 years for other assets. Although these have to be confirmed. The council has generally used asset lives within these limits. Therefore it is proposed that for 2018/19 the asset lives used in calculating the MRP will be kept within these limits.

4. Depreciation method

This requires a charge to be made for depreciation in line with normal accounting purposes. This could include the impact of any revaluations, and would be calculated until the debt has been repaid.

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing which is supported by government via Revenue Support Grants.

For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

Finance Leases and PFI

Assets held under a PFI contract form part of the balance sheet. This increases the CFR and on a 4% basis the charge to the revenue account. To prevent the increase the guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the existing PFI schemes this charge forms part of the payment due to the PFI contractor.

The Council's Policy

From 2008/09 to 2014/15 the CFR method has been applied to all supported borrowing incurred before 1 April 2007. This charge is based on 4% of the outstanding capital financing. As the charge is based on a 4% reducing balance, it never effectively repays the debt. Also, it is considered that the 4% charge over-estimates the level of support within the revenue support grant. From 2015/16 the charge was made with reference to the CFR but based upon a 50 year life rather than a reducing balance. It is assumed that there is an equal charge over each of the 50 years. It is proposed to continue this policy in 2018/19.

For 2008/09 to 2014/15 the Asset Life method (Equal Charge approach) has generally been applied to capital expenditure financed by unsupported borrowing. PFI payments will be made in line with the amounts due to repay the liability under the contract. An alternative approach to the equal charge is the annuity method which is the cheapest MRP option in the early years, and maintains a constant impact on the revenue account over the useful life of the asset being financed, once interest costs are taken into account. The basis of the charge will remain as the asset life for 2018/19 and the annuity basis will be used to calculate the MRP.

For new assets MRP will not be charged until the financial year after which the project is deemed to be complete.

MRP will not be made for assets constructed as part of the Preston, South Ribble and Lancashire City Deal where the borrowing will be repaid from other capital financing sources within the life of the City Deal. As this is temporary borrowing that will be repaid from sources such as Community Infrastructure Levy and funding from the Homes and Communities Agency when the development of the assets has taken place. Thus it is deemed that an alternative prudent plan for repayment is in place. However, this position will be reviewed each year in the light of progress on the City Deal programme.

Agenda Item 7

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2018

Electoral Division affected: (All Divisions);

2017/18 Treasury Management Activity Update
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

The report set out at Appendix 'A' is a review of the County Council's Treasury Management activities during the period August to November 2017. Treasury Management activities are regulated by the Chartered Institute of Public Finance and Accountancy (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
- Borrowing activity
- Investment activity
- Actual results measured against the Prudential and Treasury Management indicators

Recommendation

The Committee is asked to note the review of treasury management activities.

Background and Advice

As part of the county council's governance arrangements for treasury management, the Audit, Risk and Governance Committee is charged with the oversight of 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 Director of Finance and the content of these are used as a basis for this report to the committee.

At Appendix 'A' is a review of the county council's treasury management activities for the period August to November 2017. This report outlines a review of the borrowing and lending activity during the period and sets this activity against the economic background including risk management strategies to protect the capital value of the council's reserves and balances.

Consultations

External consultants Arlingclose Limited provide advice on treasury management to the council.

Implications:

This item has the following implications, as indicated:

Risk management

The council's treasury management strategy and review set out a policy in respect of borrowing and lending activity. Risks associated with these activities in 2017/18 are referred to in this report.

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

Paper	Date	Contact/Tel
Treasury Management Strategy 2017/18	February 2017	Paul Dobson (01772) 534725
CIPFA TM Code of Practice	2011	Paul Dobson (01772) 534725

2017/18 Treasury Management Activity
August to November 2017

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 on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activity at least twice a year.

This report considers treasury management activity between 1st August 2017 and 30th November 2017.

Economic Context in the period
During the period, the Monetary Policy Committee (MPC) of the Bank of England raised the base rate for the first time in a decade. At its meeting on 1 November 2017, the MPC voted by a majority of 7-2 to increase the Bank Rate by 0.25 percentage points, to 0.5%. Reasons cited for the increase were concern over inflation and the reduction of slack in the economy. The MPC has been set an inflation target by the Government of 2%. However, in September 2017 the CPI inflation increased to 3% and rose again to 3.1% in November. It is considered that inflation has been pushed above the target by the increase in import prices that resulted from the depreciation of sterling. The MPC has stated that it judges that inflation is likely to be close to its peak, and will decline towards the 2% target in the medium term.

Interest Rate Environment
Despite the increase in the base rate the short term interest rates continue to be at historically very low levels. It was not anticipated that the increase in November was the start of a period of large increases. All indications were that any future increase will be at a very gradual pace. Indeed, the county council's treasury advisors predict no further changes in the base rate for this financial year due to the uncertainty for the UK economy arising from the Brexit negotiations and the fall in real wages.

Implications for the council's treasury strategy
Since 2010 the council has 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. To date this has been continued in the current financial year. However, prospects for interest rate increases are continuously monitored, although it is not anticipated that interest rates will rise quickly. The option of fixing some of the debt for a longer period to mitigate against future interest rate increases will be kept under close consideration.

Current Treasury Management Policy
Full Council approved the 2017/18 treasury management strategy at its meeting on 23rd February 2017. The 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.

Investment Activity

Investments at 30 November total £472.1m consisting of £107.8m in bank and Local Authority deposits and £364.3m in bonds. Overall investments have decreased by £53.8m in the period reflecting expected movements in reserves and balances and cash flow forecasts. The table below shows the investment activity between 1 August 2017 and 30 November 2017.

Bank and Local Authority	Call/MMF	Fixed	Structured	Total
Deposits	£m	£m	£m	£m
Balance 1 August 2017	25.000	194.800	0.000	219.800
Maturities	-54.000	-130.000	0.000	-184.000
New Investments	54.000	18.000	0.000	72.000
Balance 30 November 2017	25.000	82.800	0.000	107.800
Bonds	LA Bonds	Gilts	Others	Total
	£m	£m	£m	£m
Balance 1 August 2017	35.400	97.300	173.400	306.100
Maturities	-1.300	-110.800	-55.800	-167.900
New Investments	1.400	147.500	77.100	226.000
Balance 30 November 2017	35.500	134.000	194.700	364.200

Within the period, there has been a reduction in the level of Bank and Local Authority deposits of £112m. This has been due to the reduced requirement to hold investments as a result of the cash flow position but also to accommodate an increase of £36.8m in the volume of gilts and corporate bonds being held as a consequence of the fluctuations in the market.

The current rate of return on the investment portfolio measured by Arlingclose Ltd treasury consultants is 1.22% which compares favourably with the benchmark 7 day LIBID which averages 0.11% over the same period.

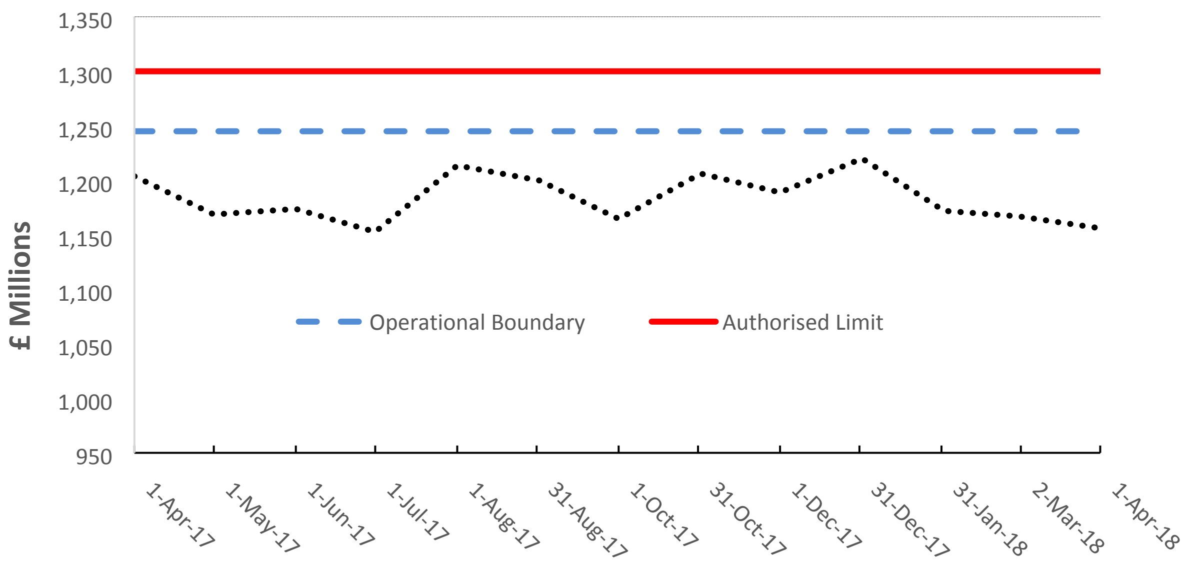
Borrowing Activity

Current market conditions continue to enable the county council to take advantage of short term market borrowing. The council did not have a need to increase its borrowing in the period therefore new borrowing was restricted to the replacement of maturing debt. The table below shows the borrowing activity which has taken place between 1 August 2017 and 30 November 2017.

Borrowing	PWLB Fixed	PWLB Variable	Long Term Market Loan	Police, Fire & Lancashire District Councils	Other Local Authorities	Total
	£m	£m	£m	£m	£m	£m
Balance 1 August 2017	213.100	125.800	50.000	106.700	559.000	1,054.600
New Borrowing	0.000	0.000	0.000	173.300	194.000	367.300
Maturities	0.000	0.000	0.000	-200.800	-193.500	-394.300
Balance 30 November 2017	213.100	125.800	50.000	79.200	559.500	1,027.600
PFI Liability						162.000
Total Borrowing						1,189.600

Total borrowing now stands at £1.19bn including the financing of £162m of assets through remaining Public Finance Initiative (PFI) schemes. The outstanding borrowing has reduced by £27m in the period. This decrease is due to the reduction in shared investment scheme balances.

The graph below shows the level of debt for the current financial year compared with the prudential indicator operational and authorised boundaries. The debt shown from 30 November 2017 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 council'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 council's current plans and as such it is expected that the boundary could be breached but not on a regular basis. Total debt during the year to date has remained below the Operational Boundary.

The current interest rate payable on debt measured by Arlingclose Ltd treasury consultants is 1.77%. The most recent benchmarking figure available of the average rate for all Arlingclose clients (as measured at 31 March 2017) is 3.76%.

Budget Monitoring Position

The net financing charges budget for 2017/18 is forecast to be £3.9m lower than budget at the end of the financial year. The main reasons for this are:

- Sale of bonds due to market movements during recent months. This enabled some gilt holdings and other traded bonds to be sold resulting in a net gain of £3.6m.
- Increased traded bond coupon and other investment income of £0.3m

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

Prudential Indicators 2017/18

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

During the period the council has been within the Prudential Indicators approved as part of the Treasury Management Strategy for 2017/18.

Annex 'A' provides details of the Prudential Indicators for the reporting period.

Annex 'A'

Prudential Indicators

1. Adoption of CIPFA Treasury Management Code of Practice: Adopted

2. Authorised limit for external debt	2017/18 £m	30th Nov Actual £m
Borrowing	1,100	1,027
Other long term liabilities (PFI schemes)	200	162
TOTAL	1,300	1,189

3. Operational boundary for external debt	2017/18 £m	30th Nov Actual £m
Borrowing	1,075	1,030
Other long term liabilities (PFI schemes)	170	162
TOTAL	1,245	1,192

4. Capital Financing Requirement to Gross Debt	2017/18 £m	30th Nov Actual £m
Borrowing Capital Financing Requirement	843	843
Estimated gross debt	1,003	1,027
Debt to Capital Financing Requirements	119%	122%

The Capital Financing Requirement (CFR) 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.

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

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	30th Nov Actual
	£m	£m
Net Interest Payable – Fixed Rate	50	9
Net Interest Payable – Variable Rate	5	3
1 year impact of a 1% rise	10	2

2. Maturity structure of debt
The limit on the maturity structure of debt helps control refinancing risk.

	Upper Limit	30th Nov Actual
Under 12 months	75%	10%
12 months and within 2 years	75%	53%
2 years and within 5 years	75%	11%
5 years and within 10 years	75%	7%
10 years and above	50%	19%

3. Investments over 364 days
The limit on the level of long term investments helps to control liquidity, although the majority of these existing investments are held in available for sale securities.

	Upper Limit	30th Nov Actual
	£m	£m
Long term Investment Limit	450	412

4. Minimum Average Credit Rating
To control credit risk the county council requires a very high credit rating from its treasury counterparties.

	Benchmark	30th Nov Actual
Average counterparty credit rating	A+	AA+

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2018

Electoral Division affected:
(All Divisions);

Internal Audit Progress Report
(Appendices 'A', 'B' and 'C' refer)

Contact for further information:
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Executive Summary

In the context of the committee's responsibility to consider updates on the Internal Audit Service's work including key findings, issues of concern and action being taken as a result of internal audit work, the committee is asked to consider the internal audit progress report and outcomes of the work for the period to 31 December 2017.

Recommendation

The committee is asked to receive and note the report.

Background and Advice

This report sets out for the committee the internal audit work performed under the audit plan for 2017/18 approved in June 2017.

Appendix 'A' to this report highlights key issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the Council's governance, risk management and internal control framework. It highlights the issues arising from the work undertaken during the period to 31 December 2017 under the audit plan for 2017/18.

Appendix 'B' sets out the audit plan for the year and provides brief notes of the progress made on each engagement.

Appendix 'C' sets out the audit assurance levels and classification of residual risks.

Consultations

The Executive Director of Adult Services and Health & Wellbeing; and the Directors of Finance; Corporate Services; Property Services; Public Health; Adult Services;

Lancashire County Council

Children's Services; Community Services; Programmes and Project Management; have been consulted on this report.

Implications:

This item has the following implications, as indicated:

Risk management

This report supports the Audit, Risk 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.

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

Matters arising from internal audit work completed during the period to 31 December 2017

1 Introduction

1.1 This report highlights key issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It sets out the issues arising from the work undertaken during the period to 31 December 2017 by the Internal Audit Service under the audit plan for 2017/18.

1.2 A full table of all the audit work currently planned, progressing and completed for 2017/18 is included at Appendix B, setting out brief notes of the progress made on each engagement. The terminology used in the table reflects the methodology followed by the Internal Audit Service, which undertakes a risk and control evaluation in two phases: the establishment and evaluation of a risk and control framework and compliance testing of the controls identified. Any action plans agreed by management to mitigate medium or high residual risks identified through internal audit work are followed up to confirm their implementation.

2 Key issues

2.1 Audit work is progressing well and a number of audits have been completed or are nearing completion. At this point we have given substantial assurance over the design and operation of the majority of services, systems and processes we have audited this year.

2.2 In particular we have given substantial assurance over the processes that safeguard children whilst using the council's transport services and in the recruitment of employees and agency staff to children's services, although we have undertaken no other work focussed on services to children. We have also given full assurance over the process by which the corporate risk register has been prepared to date. However we have been able to provide only limited assurance that the Highways Asset Management system is adequately designed to achieve its objectives, and only limited assurance over the review of complex adult social care cases and the operation of the 'Making Safeguarding Personal' programme. More details are provided in section 6 below.

2.3 We have not yet undertaken the audit work as intended to address the delivery of the council's financial strategy and budget reductions, other than to properly understand the council's current financial position.

2.4 The council continues to face a significant financial gap in future financial years. A detailed review of service budgets in early 2017 was undertaken identifying savings options. This has resulted in Cabinet, at meetings between September 2017 and December 2017, agreeing £69.950m of revenue savings, with further savings of £11.140m being discussed at the January Cabinet meeting. The savings cover a range of different activities, including the appropriate capitalisation of revenue expenditure and the impact of demand management strategies, a number of which are subject to specific consultations and these will therefore go back to Cabinet at future meetings for final approval before implementation. The funding gap in 2018/19 is currently estimated to be £48.886 million, rising to an in-year deficit of £144.492 million in 2021/22 and a total cumulative deficit over the 4 year period to 31 March 2022 of £381.796 million.

2.5 The ongoing financial viability of the council has been recorded on the corporate risk register since April 2016 (when the current register was first compiled) as the council's most significant risk, being consistently scored at the maximum possible level both before and after mitigating action is taken. Under the council's risk assessment methodology the scores represent an assessment that the risk is both certain in its likelihood and catastrophic in its impact. This risk is recorded as being owned by the council's Management Team. The Management Team also owns the risk relating to delivering organisational transformation which notes that the failure to implement the draft corporate strategy setting out the council's vision, aims and priorities could impact on service delivery. At this point the corporate strategy drafted under the previous administration has been neither approved nor replaced but it is being followed.

2.6 The interim chief executive and director of resources joined the authority on 3 January 2018 with a clear remit to achieve a sustainable budget position. However at the time of writing this report two of the three new executive director posts remain vacant, and there has been some turbulence within the council's senior management team. As has been reported before, there has already been major operational change across each of the council's services and a loss of staff over a number of years, and significant change is very likely to continue.

2.7 The audit plan recognised at the outset that there are areas of the council's operations that are subject to too much turbulence to be audited, and areas where managers have acknowledged that they will not be able to provide assurance that services and systems are adequately and effectively controlled. A number of areas that are still subject to further control improvements were listed in the audit plan presented to the committee in June 2017. Although it will provide sufficient evidence to support an overall opinion, audit work for the year has been intentionally restricted to services, systems and processes that are regarded by the council's senior managers as having the capacity to be audited and where audit work may be helpful.

2.8 It would therefore be unreasonable to expect that either the council's senior officers or the Internal Audit Service will be able to provide any more than limited assurance that the council's frameworks of governance, risk management and control will have been adequately designed and effectively operated during 2017/18.

3 The assurance available from completed audit work

3.1 A brief summary of the assurance provided for each of the audits relating to 2017/18 and completed by 31 December 2017 is provided in the table below. More information about the matters arising from each of the completed audits is set out in section 6 below.

Control area	Assurance
Governance and democratic oversight	
Effective oversight of corporate governance by the Audit and Governance Committee.	Not applicable
Business effectiveness	
Preparation and use of the corporate risk register.	Full
Follow-up of the actions agreed following our review of corporate performance monitoring in 2016/17.	Not applicable
Service delivery: adult services	
Complex case forums decision making process (formerly 'panel decision making processes').	Limited
Direct payments to service users and their carers.	Substantial
Service delivery: children's services	
Safeguarding through recruitment: selection and vetting procedures.	Substantial
Service delivery: community services	
Safeguarding in the provision of transport for children.	Substantial
Operation of the Highways Asset Management System (HAMS). (This audit addressed only the adequacy of the operational system's overall design and early operation, not its effectiveness.)	Limited
Registrar's income.	Substantial
Service delivery: Customer Access Service	
Customer Access Service management assurance processes.	Substantial
Blue badges.	Substantial
Service delivery: public health and wellbeing	
Making Safeguarding Personal.	Limited
Service delivery: schools' financial management	
Review of a sample of Schools Financial Value Standard (SFVS) self-assessments submitted by schools for 2016/17.	Substantial
Business processes	
Accounts payable: service-based controls over payments – Caring and Responsive Transport (CART) payments to taxi operators.	Substantial
Accounts payable: service-based controls over payments – Repair and Maintenance Programme (RAMP) system payments.	Limited
Accounts receivable: service-based controls over receipts – Repair and Maintenance Programme (RAMP) system receipts.	Substantial
Accounts receivable and debt management: central controls.	Substantial
Management information and budgetary control.	Substantial
Information governance.	Substantial
E-tendering. (This audit addressed only the adequacy of the operational system's overall design, not its effectiveness.)	Substantial

3.2 Since April 2016 the Lancashire Pension Fund has been administered and its pooled assets managed by Local Pensions Partnership Ltd (LPPL). LPPL has appointed Deloitte LLP as its own internal auditor and, in addition to the work being undertaken by the council's Internal Audit Service, the council may choose to take some assurance from Deloitte's work on the framework of governance, risk management and control operating over the council's Pension Fund. Deloitte disclaim any liability to the council for any reliance it may place on this work but have agreed that their conclusions may be reported to the Audit, Risk and Governance Committee.

3.3 Deloitte have completed four audits in the year to date.

Control area	Assurance
Lancashire Pension Fund	
Oversight of LPPL's business and transformation change (phase 1). (Reported in September 2017.)	Effective with scope for improvement
Core systems and infrastructure migration (phase 1). (Reported in September 2017.)	Effective with scope for improvement
Governance.	Effective with scope for improvement
Investment governance.	Effective with scope for improvement

3.4 Deloitte's classification scheme differs slightly from that used by the Internal Audit Service, and an explanation of the assurance provided by both is set out in Appendix C.

4 Amendments to the audit plan

4.1 In addition to the amendments reported in September 2017 the following small changes have been made to the audit plan.

4.2 Other than some preliminary work to understand the arrangements that controlled the achievement of the last significant three-year savings plan that ended in 2017, no detailed audit work on the delivery of the council's financial strategy and budget reductions has been done. Until a new savings plan has been established no audit of the controls to ensure it is delivered can be undertaken, and any audit work on this is now unlikely to take place during 2017/18. As noted above, a review of service budgets has resulted in additional agreed savings to the revenue budget of £69.950 million and the funding gap for the coming year is estimated as £48.886 million.

4.3 The audit plan also includes some work to understand the way in which the new administration will establish policies for the organisation and review its current policies but, in light of the council's current pressures, this will be deferred into 2018/19.

4.4 The plan included an audit of the council's management of surveillance system recorded data, covering the council's revised CCTV surveillance policy. We have undertaken some preliminary work with Democratic Services, Facilities Management and other services and have developed a risk and control framework. An action plan is now being developed by Democratic Services to ensure that adequate controls are put in place but it has become clear that, until the action plan has been fully populated and then implemented, management will be unable to provide assurance that the risks in this area are being adequately and effectively controlled. We have therefore deferred the rest of this audit until 2018/19.

4.5 Work was planned to address the quality assurance improvement programme for residential care and nursing homes. However the Patient Safety and Safeguarding Service is not yet ready to implement its revised programme and, rather than auditing the programme, auditors are providing constructive input to the service as this is developed. No further audit work on the operation of the programme to drive improvements in service delivery across the regulated care sector will be undertaken in 2017/18.

4.6 We had begun work to understand developments in the use of the care portal by external care providers to claim payments for services provided to service users. However the Core Systems team also then began a review of the same area and the audit work has therefore been deferred. This is now likely to be included in the audit plan for 2018/19 instead.

4.7 It is also likely that work on cash and banking will fall into the early part of the 2018/19 audit year as work has been re-prioritised around some sickness absence within the Internal Audit Service.

5 External quality assessment

5.1 In May 2016 the committee considered the Internal Audit Service's Quality Assurance and Improvement Programme and noted that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest."

PSIAS 1312: External Assessments

5.2 In November 2017 the Internal Audit Service was subject to an independent, objective validation by the Chartered Institute of Internal Auditors (CIIA) of its self-assessment against the Institute's International Professional Practice Framework (IPPF) and the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the CIIA. This external assessment included considering the service's conformance to each of these sets of professional standards, benchmarking its activities against best practice and assessing the impact of internal audit on the county council and its external client organisations.

5.3 The IPPF includes the definition of internal auditing, core principles, code of ethics and international standards: there are 64 fundamental principles to achieve with 118 points of recommended practice. The PSIAS and LGAN add considerably more requirements to these.

5.4 The external assessment concluded that the Internal Audit Service fully meets nearly all the standards, as well as the definition, core principles and the code of ethics, which form the mandatory elements of the IPPF. This is described as "generally conforms" and means that the Internal Audit Service may state in our internal audit reports for all clients that our work "has been performed in accordance with the IPPF, PSIAS and LGAN".

5.5 The performance of the Internal Audit Service was benchmarked against a maturity model based on a wide range of UK and Irish internal audit functions and was assessed as 'good' in its reflection of the standards and its focus on performance, risk and adding value. It was assessed as 'satisfactory' in the efficiency of its operations and in its Quality Assurance and Improvement Programme, but 'needs improvement' in coordinating and maximising assurance with other assurance providers. A small number of actions have arisen for the service from this review, which will be addressed over the coming months.

5.6 The full report has been provided to the committee's chair and will be provided to any other member who would like to receive it.

6 Issues arising from completed audit work

6.1 The matters arising from each of the audits completed since the last report to the committee are set out in the narrative below, and notes of the progress made on each audit on the plan for 2017/18 are set out in in Appendix B.

Preparation and use of the corporate risk register, after its first year of operation (Full assurance)

6.2 The council developed a revised approach to risk management in 2015/16 and at this point the processes that produce the corporate risk and opportunity register are adequately designed and operating effectively. The council's approach to risk management is published on the intranet and is available to all staff and councillors. Training and support have been provided and are available on an ongoing basis.

6.3 Each service is required to produce a service-based risk and opportunity register on a quarterly basis, approved by the appropriate director. These are collated by the information governance manager and reviewed by the head of legal and democratic services and, until the end of 2017, the director of governance, finance and public services. They assess which risks and opportunities should be included on the corporate risk and opportunity register in accordance with the council's risk appetite. This is then considered by the Management Team and presented to the Audit, Risk and Governance Committee, which has responsibility for risk management and control, and to the Cabinet Committee on Performance Improvement.

6.4 Clearly this process is heavily reliant both on heads of service's understanding and identification of the risks to their services, and on input from the former director of governance, finance and public services. From January 2018 this post will no longer exist in the council's structure. The nearest equivalent post will be that of director of corporate services, who will take up the statutory role of monitoring officer.

Follow-up of the actions agreed following our review of corporate performance monitoring in 2016/17 (Assurance is not applicable)

6.5 A single action was agreed in 2016/17 to mitigate a medium risk in relation to corporate performance monitoring (three other actions mitigated only low residual risks). It was intended that, following approval of a new corporate strategy, the existing performance measures would be reviewed to ensure that council is working towards common objectives and targets. However although the Business Intelligence Service continues to ensure that the council's performance is monitored and, for example, quarterly corporate performance monitoring reports are presented to the Cabinet Committee on Performance Improvement, no new corporate strategy has been agreed at this point.

Adult Services: complex case forums decision making process (Limited assurance)

6.6 The forums for Learning Disability, Autism and Mental Health complex cases consider high cost and complex social care cases. This ensures that packages of care are robustly challenged in a fair and consistent manner, taking into consideration the best interests of each service user and ensuring that their needs are met as cost-effectively as possible.

6.7 These complex case forums operate robustly: decisions are taken fairly and consistently, applications are challenged and decisions are reached appropriately. However it is not clear that all relevant cases are actually being submitted for consideration by the forums. Although hierarchy controls and approval limits within the Liquidlogic Adults System (LAS) should ensure that no packages are approved inappropriately, the system does not ensure compliance with the forum review process and in particular does not trigger reviews related to the cases' costs. We found approved packages of care that should have been considered by a forum but which had not been submitted.

6.8 Cases rejected or deferred by the forums are not adequately followed up and there is a risk that packages of care are either put in place without sufficient consideration and oversight or are unduly delayed. The failure to monitor decisions over every case including those made outside the forums, and the lack of clear guidance regarding the cases that should be on the agenda at forums, can lead to decisions regarding packages of care being taken without appropriate consideration and challenge. This risks poorer quality and inconsistent decision making, particularly in relation to the commitment of resources. We have therefore been able to provide only limited assurance over the decision making process as a whole.

Adult Services: direct payments to service users and their carers (Substantial assurance

6.9 Individuals receiving a personal social care budget to meet the care needs set out in their support plan can choose to receive this funding through direct payments. These payments can be made to service users through a prepaid card or a separate bank account. Since service users may need to employ carers, some of the direct payment can be used to pay an independent company to manage the carers' employment and pay any invoices.

6.10 Procedures are in place that social workers must follow when completing a social care assessment and identifying if direct payments are appropriate. The Resource Allocation System is used to assess the client's level of need and to generate an indicative budget. Assessments of service users' capacity and tests that decisions have been made in their best interests are also completed during the assessment process, although not in all cases where a possible need has been identified.

6.11 After a gap when no comprehensive training has been available, a training programme has begun which is mandatory for all staff involved in the direct payment process. This provides a good overview, covering policy and guidance and key areas such as the completion of support plans and the potential for fraud and misappropriation of funds. New processes for dealing with exceptional circumstances have also recently been established that replace the previous informal and poorly documented process.

6.12 Although service user's case files on LAS are updated during the assessment process, the content and information recorded varies greatly and some aspects of the process are clearly documented whilst others are not. No direct payment should be made until a signed copy of the financial agreement (known as a 'FIN107') is held on the service user's case file, indicating the service user's agreement (or that of someone authorised by them) to the terms and conditions of the direct payment scheme. We found two cases in our sample of 30 where payments had been made but no FIN107 was recorded in LAS, and six others on file but which had been signed more than five years ago.

6.13 To ensure that packages of care remain appropriate and continue to meet a person's needs, social care reviews should be undertaken periodically. With only one minor exception reviews have been completed or scheduled annually.

Children's Services: safeguarding through recruitment – selection and vetting procedures (Substantial assurance)

6.14 The council's recruitment process for employees and agency staff is managed differently. The BTLS Payroll and Resources team manages the personnel files for staff recruited into the council's employment, ensuring that safeguarding guidelines are in place and followed. Safeguarding requirements for all roles are identified on all job descriptions. Spot checks of key information are carried out at monthly supervision meetings and all the staff we tested were eligible to work in the UK and registered with the Health and Care Professionals Council (HCPC). However evidence is not consistently retained that Disclosure and Barring Service (DBS) information has been checked (although the introduction of the 'e-bulk' DBS application process should resolve this.)

6.15 The council has struggled to recruit and retain permanent staff and at the end of November 2017 155 agency staff were working in children's social care. Agency staff cost £3.5 million between April and September 2017. (A further 174 agency staff were working in adult social care at a cost of £2.2 million for the same period.) The Skills, Learning and Development Service manages the recruitment of agency staff across the council, and comprehensive guidelines are published on the intranet for all operational managers to use. The council has contracted with Matrix SCM Limited, a neutral vendor managed service, to source all its agency staff as far as possible although some services still procure agency staff through other routes and there are some inconsistent practices and duplication of controls in the use of the contract. Agency staff are subject to safeguarding requirements and pre-placement checks, and DBS and HCPC clearances had been obtained for all the agency staff procured by Matrix

SCM that we tested. However there was no evidence that satisfactory references had been received for two of 20.

Community Services: safeguarding in the provision of transport for children (Substantial assurance)

6.16 Amongst other things the Public and Integrated Transport Services (P&ITS) team is responsible for managing tenders and contracts with private bus and coach operators for school transport and for administration of Disclosure and Barring Service (DBS) checks. The P&ITS team organises and provides transport for passengers who are in receipt of commissioned services, including children for whom it is not practical to provide a bus service to school, children with special educational needs and disabilities, and adults attending day care provision.

6.17 The council's policies, procedures and guidance accord with relevant safeguarding legislation and are accessible by all staff, service users, parents, carers and transport operators. Their safeguarding responsibilities are clearly communicated to staff and external stakeholders, and appropriate safeguarding training is provided to all staff. External transport operators receive an induction pack when accepted onto the procurement framework, which sets out the council's safeguarding arrangements, requirements and expectations.

6.18 Unescorted drivers and passenger assistants' DBS checks are appropriate and valid for the contracts they operate. Unescorted drivers' enhanced certificates are physically verified and their renewal dates are monitored.

6.19 Safeguarding alerts and allegations follow Local Authority Designated Officer notification procedures. Reports from the Traffic Commissioner are reviewed for alerts that licences have been restricted or revoked so that action can be taken to suspend the operator. The council's Safer Travel Unit, set up to improve the safety of bus travel, communicates frequently with the compliance manager and provides school-gate scrutiny and challenge to unescorted drivers.

Community Services: operation of the Highways Asset Management System (HAMS) (Limited assurance)

6.20 HAMS replaced a number of older systems in April 2017 and is an integrated solution for the management of infrastructure including land, highways structures, public lighting, and distribution networks. It is intended to deliver service improvement, providing one single system for managing highways assets and related works, recording and responding to defects, collating data for analysis, reporting, and controlling procurement. The system is chiefly used by the Highways Service, Design and Construction Service, and the Customer Access Service. System support is provided by the Core Systems Team, which also co-ordinates the development of the system with stakeholders and BTLS.

6.21 The associated Report It facility is the means by which councillors, members of the public and CAS are able to report faults on roads, pavements, cycle paths, public right of ways, street and traffic lights or flooding incidents to the council

6.22 The Highways Service's senior managers believe that HAMS has not delivered the benefits in terms of efficiencies and streamlined processes that were intended, and its implementation has actually resulted in lower productivity. HAMS is data driven and reliant on data quality but there is a consensus across both the Highways Service and Core Systems Team that the data within HAMS is unreliable. Furthermore, the Highways Service believes that resources are being allocated to unnecessary inspections and works on non-actionable defects and on non-council owned assets resulting from poor data collected from the public and ineffective triage. The service is also concerned that members of the public and councillors do not always receive sufficient, accurate, or indeed any, feedback on the progress of works to resolve reported defects.

6.23 However managers and officers within the Highways Service and Core Systems Team are committed to identifying the issues and taking action to resolve the remaining issues within the constraints of the software provided by Symology Ltd. Review groups have been formed to address the system's functionality and its operation in service and a detailed action plan has been developed that is continually reviewed and updated.

6.24 Whilst we did not assess the work undertaken to develop the system prior to its implementation in April 2017, HAMS was developed and implemented at the same time as restructures were occurring in the key services that use the system. It is clear that the implementation of one large system to replace several long-standing and familiar systems, and the associated changes required to operational procedures and culture, would be challenging at any time but were particularly difficult under these circumstances.

Community Services: Registrars' income (Substantial assurance)

6.25 The Registrar's service registers births, deaths and marriages and issues certificates, including copies of historical certificates. It also provides other services, such as checking British citizenship applications, licensing venues and officiating at wedding ceremonies. There are a number of registration offices across Lancashire and we visited offices in Ormskirk, Fleetwood and Preston.

6.26 Staff at all the sites we visited are aware of their duties and the risks associated with the service, and all medium and high risks are adequately and effectively mitigated. Smaller offices such as Fleetwood are currently unable to fully comply with the requirements of the service's financial procedures (which are aligned with the council's financial regulations and would benefit from greater flexibility in their management of receipts, refunds and petty cash procurement. The inspections required by financial procedures have not been undertaken since 2011 and it has been agreed that a schedule of visits will be undertaken again.

Customer Access Service: management assurance processes
(Substantial assurance)

6.27 The Customer Access Service is the first point of contact for 60% of all incoming telephony and email enquiries to the county council. It operates as two functions; the social care centre and customer contact centre. The social care centre provides information, advice and assistance on matters relating to adults' and children's social care, and addresses a wide range of issues of varying complexity. The customer contact centre acts as the initial point of contact for Lancashire's citizens to 26 of the council's services including highways, Ask HR, libraries, Nowcard, concessionary travel, registration, waste, and welfare rights. The centre also signposts customers to other agencies across the public sector and partner organisations.

6.28 The Genesys system was implemented in September 2016 to improve customer contact, workflow management and management information through new telephony, workforce planning, social media, and contact automation, and supports comprehensive daily monitoring of work schedules. Performance data from Genesys comes in various formats and as well as daily reports there are comprehensive monthly reports which are reviewed by the service's management team.

6.29 Quality assurance procedures are in place to review the work of the customer service assistants and take corrective action if necessary. Errors and complaints are recorded in spreadsheets which set out the action taken in response.

6.30 It is intended eventually that the Customer Access Service and corporate information systems both use the same information management system to ensure consistency of information and minimise duplication of work. This is a long term goal but work to improve alignment between the current systems has begun. In 2017/18 a roadmap for all key projects was implemented which details the status of all projects, and all are being implemented using Prince II methodology.

Customer Access Service: blue badges (Substantial assurance)

6.31 There is a clear and comprehensive policy providing guidance on blue badge applications, which is in line with the Department of Transport's guidance. There is a structured approach to officer training and a comprehensive quality assurance process, including monthly management checks on each advisor. Management operates monitoring processes intended to pick up errors, which are logged, reported and resolved effectively.

6.32 However despite these quality controls we found processing errors arising from basic human error which had not been identified by the service's own quality testing. Of the 40 applications we tested, 36 were correctly issued but two badges had been wrongly awarded to ineligible applicants and two had been issued with end dates beyond the recipients' entitlement. We also found that controls over badges returned to the council are insufficient to ensure in all cases that they are correctly handled and destroyed.

6.33 Although the service's monitoring processes did not identify the matters we found in our sample testing, it is unclear what further action could be taken to address these human errors.

Public Health and Wellbeing: Making Safeguarding Personal (MSP) (Limited assurance)

6.34 The Care Act 2014 defines safeguarding as protecting an adult's right to live in safety, free from abuse and neglect, and puts adult safeguarding on a legal footing, specifying local authorities' responsibilities. Making Safeguarding Personal is a national framework that is now established as statutory guidance accompanying the Care Act 2014 intended to make safeguarding person-centred and outcomes-focused. It is associated with the personalisation of social care, empowering people to make informed choices with an emphasis on sensible risk appraisal, taking account of individuals' preferences, histories, circumstances and life-styles.

6.35 It is clear that the staff of the Safeguarding Service fully supports this programme and during the audit officers were proactive in suggesting areas that remain for improvement. The service is developing a robust MSP framework, and updated safeguarding policies and procedures are being produced that reflect a more person-centred approach to social care.

6.36 The current safeguarding policy and guidance lacks some of the detail required, specifically regarding which areas of the Liquidlogic Adult System (LAS) are mandatory and how outcomes should be documented. Whilst a range of training opportunities are available to staff, they are not consistently offered to ensure that all staff have completed mandatory training, relevant supplementary training and refresher training.

6.37 MSP requires that individuals' desired outcomes are clarified. Conversations held before, during and after intervention should therefore be recorded but, in 14 of 30 safeguarding enquiry records reviewed, there was insufficient evidence of conversations with the adult, their family or advocate before or during the safeguarding review. In 17 of 30 cases, there was no record of any conversation with the adult following intervention.

6.38 The capacity assessment within LAS is not consistently completed when required, and the section addressing the decision to be made in the best interests of the adult is therefore also overlooked. Completion of these sections is necessary to support a consistent, structured approach and evidences the practitioner's decision-making process.

6.39 Current advocacy arrangements do not consistently meet the statutory requirement under the Mental Health Act to provide people lacking mental capacity with support from an independent mental capacity advocate (IMCA) if they wish. We found advocacy was not provided in one case when it would have been appropriate, and in two cases an IMCA referral had been made but no service had been provided by the time the case was closed.

6.40 There is a backlog of unallocated safeguarding alerts within the Multi Agency Safeguarding Hub (MASH) team: we found 843 alerts waiting to be allocated in July 2017, the oldest being outstanding for almost four months, although they had been screened and risk assessed. We understand that additional agency staff resource has now been provided to address this backlog.

6.41 Targets have not been set for completing safeguarding enquiries. Whilst we understand that enquires are discussed between team managers and practitioners, no formal monitoring of timescales is undertaken and anomalies may go undetected. For example we found some significant delays (of up to two years in one case) in clearing enquiries. Enquiries should be adequately assessed and accurately recorded before being closed. They should therefore be subject to review by a team manager but four of 30 enquiries did not appear to have been reviewed before closure.

6.42 Completion of a risk assessment in response to a safeguarding enquiry supports the decision whether the adult remains at risk, and protects the practitioner's decision should it later be challenged. However risk assessments are not consistently completed, and we found a completed risk assessment on only six of 30 enquiry records.

Caring and Responsive Transport (CART) payments to taxi operators

(Substantial assurance)

6.43 The council provides transport in taxis for adults and children who have special educational needs and for children in mainstream education who do not live on a regular bus route. The Integrated Transport Service uses the CART system to monitor the taxi operators' contracts and payments.

6.44 Approximately £12 million per year is currently spent on taxis through 179 providers and 1,292 contracts (since each service user generally requires an individual contract). There is generally a sound system of internal control, adequately designed to meet the service's objectives, and controls are generally being applied consistently. However there are some issues that will be addressed by management during the first half of 2018.

6.45 These include the need to ensure that agreements are in place and retained with each taxi operator that address a range of contractual matters, some of which address safeguarding, although there are additional checks in place that mitigate safeguarding risks (and which we have audited during our work on 'Safeguarding in the provision of transport for children').

6.46 In common with other systems across the council, access to the CART system is not managed effectively. There are currently 333 user accounts, but it is not clear who should have access and what permissions are appropriate to their current role. However, rightly, the staff who process claims for payment are not able to set up or amend contracts, and those who set up or amend contracts do not have the functionality to process claim forms for payment.

Repair and Maintenance Programme (RAMP) system payments

(Limited assurance)

6.47 The configuration of the RAMP system enables a single officer to raise an order, receive the goods and approve the invoice for payment. There are other controls over expenditure that could identify any inappropriate expenditure, but these are incomplete.

6.48 Most items ordered are associated either with a specific job or a specific stock-line, which imposes controls associated with monitoring the costs of a job or levels of stock held. However, although reports are produced annually of the repair work undertaken on each vehicle which could identify any excessive or unusual costs, we found no evidence that these report are reviewed.

6.49 Items may also be ordered as overheads, associated with neither a job nor a stock-line and, in these cases, there are no other controls to ensure that any inappropriate expenditure is identified.

Repair and Maintenance Programme (RAMP) system receipts

(Substantial assurance)

6.50 Debtors' invoices are raised for work undertaken on vehicles belonging to external clients. However signed agreements were not in place for three of the five clients we examined and, in the remaining two cases, charges were not raised in accordance with the rates specified in the agreements.

6.51 The service will ensure that contracts with its clients are updated to match current expectations of the agreements between them, and in particular where fixed prices are charged rather than actual, variable, costs.

Accounts receivable and debt management: central controls (Substantial assurance)

6.52 Invoices are raised within operational service areas and are being raised correctly, but a high proportion (75% of our sample) were raised late, largely because the work has not been reallocated as officers have left the authority, and problems with HAMS have also affected invoicing. Some invoices have been raised two months after a service was provided and, in one case, four months after.

6.53 The accounts receivable and debt management functions are managed using the Oracle Financials system, which has been programmed to address different types of debt following different strategies. Each strategy generates appropriate work for the debt collectors, facilitating the timely recovery of outstanding invoices if work items are actioned promptly. However due to vacancies in the debt collection team there have been some delays in the debt recovery process. An increase in the number of open work items queued for action would indicate that debt is not being effectively addressed in a timely manner, but the work queues for individual debt collectors are not monitored. There are large numbers of work items (approximately 9,000) in work queues for debt collectors who have left the council during the year, some being more than three months old.

6.54 The overall focus of debt management has shifted to address debt at an early stage when it is more readily collectible. This has resulted in a significant reduction in the value of debt up to six months old, which has fallen by 15% between December 2016 and December 2017. However debt aged six months or more has increased by 26% to £19.29 million over the same period whilst, overall, debt has fallen slightly from £58.9 million to £56.25 million.

Management information and budgetary control (Substantial assurance)

6.55 Good practices are in place to ensure that management and staff are able to monitor and manage the council's budget as a whole and at the level of individual services. In particular, the Oracle system accurately reflects in detail the revenue budget approved by the Council in February 2017 and amended in July 2017.

6.56 All revenue budgets have been allocated to a responsible manager as budget holder and support is available from the Financial Management team, and budget holders have access to monthly monitoring reports with additional reports provided by finance officers as required. Budgets are reviewed and re-forecast regularly by budget holders and finance officers to identify, analyse and address variances. However the council's broader financial position remains extremely challenging, and projections of the overall position in future years are subject to significant variations from quarter to quarter as the assumptions underlying the projections are altered.

6.57 Access to upload journal transfers to the Oracle general ledger is not restricted to finance officers as intended. Whilst most users with this permission are officers in the Financial Management team or other financial teams, 11 of a sample of 20 did not appear to be in posts in which journal uploads would be required. While we identified no instances of misuse of this responsibility, there is a risk of inadvertent or fraudulent movement of funds across Council budgets.

We plan to carry out further work on the effectiveness of controls over user access to the council's financial system later in the year.

Information governance (Substantial assurance)

6.58 Under the Data Protection Act 1998 (DPA) individuals including employees are entitled to request a copy of all information about them that the council holds; the Act refers to such a request as a subject access request (SAR). Once the requester's identity has been confirmed the council has 40 calendar days to locate and supply the data subject with their personal data. The new General Data Protection Regulations (GDPR) due to be implemented in May 2018 reduce this to 30 calendar days and as the public become increasingly aware of their rights it is anticipated that the number of SARs will increase significantly.

6.59 Under the Freedom of Information Act 2000 (FOIA) that came into force on 1 January 2005 anyone has a right to request information from a public authority. The council has two separate duties when responding to these requests – to tell the applicant whether they hold any information falling within the scope of the request, and to provide that information. Under the act the council must respond within a maximum of 20 working days.

6.60 Officers in the Information Governance team are experts in their fields and we observed many examples of good practice. The introduction of information governance champions in each service has also proved very successful, especially in preparing for the introduction of the new GDPR.

6.61 We found general compliance with the established procedures for processing requests and providing appropriate responses, although not all are issued within the statutory timeframes. The Norwel case management system is not being updated consistently with completion dates and case outcomes and is not currently configured to realise the benefits of an integrated case management system.

6.62 Quarterly performance reports are obtained from the Norwel system but require intensive data cleansing before they can be used. Enhancing the reporting functionality of Norwel would further support housekeeping activity and improve operational performance monitoring and reporting.

Lancashire County Council internal audit plan 2017/18: progress as at 31 December 2017

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Control framework: Governance and democratic oversight					
Democratic Services	Decision-making within the corporate governance framework by elected members under delegated powers.	Assessment of the council's measures to ensure compliance with its procedures, authority and timescales for proper decision-making by members, including compliance testing.	1+2	This work has been prepared and will begin in early in 2018.	
Democratic Services	Decision-making within the corporate governance framework by officers under delegated powers.	Assessment of the council's measures to ensure compliance with its procedures, authority and timescales for proper decision-making by officers under the scheme of delegation. (This work will be continued from 2016/17).	1+2	This audit will be undertaken alongside that on members' decision-making and will begin in January 2018.	
Democratic Services	Effective oversight of corporate governance by the Audit and Governance Committee.	Re-assessment under the new administration of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	1+2	The committee has considered the action plan arising from an assessment of its risk and control framework, and revised terms of reference have now been approved by the full Council. (Reported in September 2017).	Not applicable to this work
Democratic Services	Operational policy setting.	Understanding the way in which the new administration will establish policies for the organisation and review its current policies.	1	This audit had been scheduled to begin at the end of the audit year but, in light of the current pressures on the organisation, has been deferred into 2018/19.	Not applicable
Control framework: Business effectiveness					
Risk management	Preparation and use of the corporate risk register, after its first year of operation.	Re-assessment after the first year in use of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records. This will include compliance testing of the processes in place across the council's services.	1+2	The process by which the council's risk and opportunities register is prepared is currently adequate and effective, although it is heavily reliant on heads of service, and the head of legal and democratic services in particular, supported by the information governance manager. More senior management input has been reliant on the director of governance, finance and public services, whose post is not present in the new organisational structure from January 2018. This process identifies and records the council's risks and the mitigating action being taken, but it cannot then guarantee that risks are mitigated to an acceptable degree.	Full
Financial management	Delivery of the council's financial strategy and budget reductions	Understanding the council's financial position and the controls that will ensure that sufficient, or planned, savings will be made in addition to those already achieved under the three-year plan that will end 2017/18.	1+2	Whilst we have sought to understand the council's current financial position, the next full round of savings has not yet been agreed. A preliminary risk and control framework has been developed and more detailed audit work will be done when a savings programme has been agreed and controls put in place to manage it, but this work is not now expected to take place during 2017/18.	Not applicable as this work will be deferred
Corporate Finance	Obtaining and understanding the assurance provided by the Pension Fund's own internal auditors.	Assessment of the assurance proposed and, in due course, provided by Deloitte LLP over the Lancashire Pension Fund's administration and investment operations outsourced to the Local Pensions Partnership.	1	Four reports have now been provided in summarised form by Deloitte LLP, and each has been discussed with the council's head of the Pension Fund. The opinion provided by Deloitte in each case is 'effective with scope for improvement'.	Effective with scope for improvement
Corporate Finance	Oversight of the Lancashire Pension Fund.	Assessment of the council's governance framework to achieve corporate oversight of the Lancashire Pension Fund.	1+2	This work has begun and is ongoing.	
Corporate Finance	Oversight of the Lancashire Pension Fund.	Audit of the custodianship of the assets of the Lancashire Pension Fund.	1+2	The current custodianship contract will end in July 2018 and there will be an opportunity to address any issues arising from the audit as the contract is renewed or replaced. We will undertake compliance testing in 2018 to give assurance over the current arrangements.	
Corporate Finance	Oversight of the Lancashire Pension Fund.	Audit of the council's accounting for the Pension Fund through its general ledger.	2	This work will take place in early 2018 and a risk and control framework has been shared with the auditees involved.	

Appendix B

* Type of audit: In accordance with the explanation set out in the audit plan, '1' is consultancy only; '2' is compliance testing only; '1+2' is a full risk and control evaluation; 'F' is follow-up testing.

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Business Intelligence	Corporate performance monitoring.	Follow-up of the actions agreed following our review of this area in 2016/17.	F	It was intended that, following approval of a new corporate strategy, the existing performance measures would be reviewed to ensure that council is working towards common objectives and targets. However no new corporate strategy has been agreed and this action has cannot therefore be completed by the Business Intelligence Service.	Not applicable to follow-up work
Financial Management	Oversight and alignment of the council's establishment and staffing budget.	Continuation of the work begun in 2016/17 to review the process to capture workforce planning decisions and ensure that the council's establishment is properly supported by matching budgets, and that HR and financial records are aligned, complete, accurate and current.	1+2	A risk and control framework has been agreed with the head of service for operational financial management and, at management's request, testing will start in March 2018.	
Control framework: Service delivery					
Operations and Delivery	Communication with staff across the council.	Testing the dissemination of information up and down the management chain, to ensure that all staff understand the council's priorities and operating procedures and to ensure the escalation of matters of strategic or political importance.	1+2	Planning work is complete and, when we have discussed our approach with the current corporate director for operations and delivery in January 2018, our detailed testing will begin.	
Adult Services	Supervision and support to front line social workers and other social care support workers.	Work to build on the audit undertaken in 2016/17, with further assessment and compliance testing of supervision and support to front-line social workers and other social care support workers across a sample of geographical areas and services.	1+2	Subject to capacity within Adult Services this work will focus on the operation of the new arrangements to ensure the regular supervision and support to front line social workers and other social care support workers established under the revised policies and procedures.	
Adult Services	Complex case forums decision making process (formerly 'panel decision making processes').	Audit of the panel decision making process specifically in relation to clients with learning disabilities and mental health issues, including compliance with approval thresholds and delegated responsibilities.	1+2	The operation of the Adult Learning Disability, Autism and Mental Health complex case forums is robust: decisions are taken fairly and consistently, applications are challenged and decisions are reached appropriately. However it is not clear that all relevant cases are actually being submitted for consideration by the forums and therefore, although the process operates largely effectively for the cases that are considered by the forums, we can provide only limited assurance that the controls operated by the process are sufficiently effective.	Limited
Adult Services	Case management: occupational therapy services.	Assessment of compliance with the arrangements in place over the referral process, timeliness of the assessment and agreement of packages of care, delivery of services, oversight and supervision arrangements.	1+2	Testing is complete and our findings are being compiled and discussed with the Occupational Therapy team managers.	
Adult Services	Direct payments to service users and their carers.	Assessment of compliance with the processes underpinning decisions to support care users with direct payments, the development and approval of the associated support plans.	1+2	The service has undertaken a lot of work to improve its controls over direct payments. Procedures are in place and training has been mandated to ensure that all staff understand them. Care plans are reviewed annually to ensure they meet service users' needs and the service is planning to ensure that financial agreements with service users are renewed periodically.	Substantial
Exchequer Services	Direct payment reviews.	Audit of the scope, frequency and timeliness of reviews undertaken to determine that direct payments are being spent only on items identified in the support plan and that unspent funds are being effectively clawed back.	1+2	This work has been undertaken in conjunction with that on Adult Services and is nearing completion. A report is being prepared.	
Exchequer Services	Service user financial assessments.	Assessment of the timeliness and accuracy with which service user's financial assessments are conducted and then revised as changes are made to approved packages of care.	1+2	The audit has been prepared and is really to start early in 2018.	
Adult Services	Contract monitoring: reablement service.	Audit of the system to monitor contracts for the provision of the reablement service.	1+2	This work is scheduled with the service for the final quarter of the year.	

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Adult Services	Contract monitoring: crisis support service.	Audit of the system to monitor contracts for the provision of the crisis support service.	1+2	This audit is being undertaken in association with that on the reablement service, and compliance testing will take place in early 2018.	
Adult Services	Use of the care portal by external care providers to claim payments for services provided to service users.	Audit of the system to manage payments to external care providers, focussing on information flows from providers and checks that ensure payments are accurate and valid.	1+2	The Internal Audit Service had begun to understand the developmental work being undertaken by the service's managers, but the Core Systems team had also begun to review the same area and audit work has therefore been deferred. This is now likely to be included in the audit plan for 2018/19 instead.	Not applicable as this work has been deferred
Adult Services	Development of the workforce (training and guidance for staff across Adult Services).	Consideration of the arrangements to ensure mandatory and corporate training is properly undertaken by relevant staff, and that both training and broader guidance material are adequate.	1+2	This audit is scheduled to take place at the end of the year and will be informed by work on a number of other areas which will be complete by then.	
Children's Services	Safeguarding through recruitment: selection and vetting procedures.	Audit of the recruitment and vetting of staff, including agency workers, in a sample of service areas across Children's Services, in particular to ensure that credentials are confirmed and individuals are properly vetted to address the risks around safeguarding.	1+2	Although the way employees and agency staff are recruited differs, all are subject to safeguarding checks. Some evidence was unavailable to confirm that Disclosure and Barring Service (DBS) information has been checked for all employees, and that references are obtained for all agency staff. There are inconsistencies in the way agency placements are managed by operational managers.	Substantial
Children's Services	Service improvement.	Understanding the framework in place and the actions being taken to support improvement across Children's Services so that we will be better placed to provide support and to plan future assurance work. This work will specifically include activity supporting effective casework management and supervision.	1	Appropriate governance and operational delivery structures are in place to support the improvement action required by Ofsted. The Improvement Board has a clearly defined role to oversee improvement plan delivery, which is monitored and reported to each meeting, and is supported by sub-groups and operational and stakeholder groups. A review by Ofsted of the Special Educational Needs Service in November 2017 will be formally reported in January 2018.	Not applicable to this work
Children's Services	Information security within parts of Children's Services.	A number of data losses have been experienced in the Fostering and Adoption Service and Minute Taking Team so, working with those teams and the Information Governance team, we will assess the risks and controls in place to manage information.	1	Planning work has begun.	
Children's Services	Contract monitoring: external residential placements.	Audit of the Access to Resources Team's system to monitor external residential placement contracts.	1+2	The Access to Resources team was established only early in 2017 so the audit will take place in early 2018, but a planning meeting is scheduled with the head of service to agree the audit's scope.	
Children's Services	Personal budgets for service users and direct payments to their carers.	An overview of the process by which personal budgets are established and reviewed, and direct payments are made to service users and carers including third party service providers.	1	A draft report has been prepared and is being reviewed and discussed with the auditees.	
Children's Services	Transition from children's to adult services.	Initial assessment of the controls to ensure service users' needs continue to be met as they make the transition from Children's to Adults' services. This work will include a focus on the Special Educational Needs and Disabilities Service.	1	A draft report has been prepared and is being reviewed and discussed with the auditees.	
Community Services	Provision of transport for children.	Audit of the arrangements made to safeguard children being transported by the council to educational or other facilities.	1+2	The council's safeguarding policies and procedures are communicated to staff, service users and operators, and safeguarding incidents are reported, recorded and addressed. Safeguarding requirements are built into operators' contracts, with controls to test compliance. Some action will be taken to further strengthen control, including checking operator statements, licence and insurance documents before admitting operators to the procurement framework.	Substantial

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Community Services	Contract monitoring.	Audit of arrangements to monitor Community Services' contracts to ensure proper contract delivery by the supplier and appropriate payment by the council.	1+2	Following initial discussions with the director of community services we will audit the waste landfill contract and contracts in the Highways Service, and will support the service with initial advice relating to monitoring the contract with Network Rail relating to the Skelmersdale Rail Link.	
Community Services	Operation of the Highways Asset Management System (HAMS).	First assessment of the operation of the system since its introduction to replace a number of other systems during 2016/17. Mapping of the system into a risk and control framework.	1	The intended efficiencies in managing highways assets, recording and responding to reported defects, raising orders and invoices, and paying supplier invoices have not yet been realised. However officers within the Highways Service and Core Systems Team are committed to identifying and addressing the remaining issues. A review group meets weekly and an action plan is actively managed to address the issues raised.	Limited
Community Services	Hire and return of vehicles by the Highways Service.	Support to management to assess the risks and controls associated with hiring and returning vehicles.	1	A risk and control framework has been developed and the necessary controls agreed with the Highways head of service. At this point advice but no assurance has been provided.	Not applicable to this work
Community Services	Waste management arrangements	Work to understand arrangements for managing waste.	1	Discussions with the head of service have taken place to understand the current arrangements and are continuing as we audit the contract monitoring arrangements specific to the waste landfill contract.	Not applicable
Community Services	Pre planning application advice service.	Assurance over the traded service recently introduced and offered to developers to improve the quality of their planning applications.	1+2	A risk and control framework is being drafted but, as this is a new service we plan to test controls in the fourth quarter of the year to ensure that a sufficient number of applications have been processed to provide an adequate sample.	
Community Services	Registrars' income.	Audit of service delivery including arrangements for charging and income collection.	1+2	The service's managers have agreed to review their financial procedures to ensure they are suitable and all sites are able to comply, and include reference to processes such as refunds and procurement. The service also intends to reintroduce site inspections to ensure that all sites are compliant.	Substantial
Customer Access Service	Customer Access Service management assurance processes.	Assurance over the service's activity to ensure the quality of its service delivery including monitoring responses, follow-up action, data system input, and treatment of any feedback or complaints.	1+2	The service's management oversight to ensure the quality of its service delivery is comprehensive and corrective action is taken to address any issues identified, whether identified through proactive monitoring or through customer feedback. In addition, we considered a range of related management issues and found that they too are addressed well by the service. In particular workforce planning operates well to make best use of available resources, and recruitment and retention issues are being actively addressed. Work is ongoing to align the Customer Access Service's and corporate information systems.	Substantial
Customer Access Service	Blue badge applications.	Assurance over the applications process and compliance with policy, including charging and accounting for income.	1+2	Controls are generally adequately designed but we found a number of errors in processing and issuing blue badges and in dealing with badges returned to the council. Management operates monitoring processes intended to pick up errors such as these and, although they did not identify the matters we found in our sample testing, it is unclear what further action could be taken to address these human errors.	Substantial
Public Health and Wellbeing	Commissioning and oversight of public health service provision.	Assessment, with the service, of the effectiveness of its commissioning to achieve outcomes.	1	Preparatory work has begun with the head of service. The work will be supported by the more detailed audit of contract monitoring, which has also now begun.	
Public Health and Wellbeing	Commissioning and oversight of public health service provision.	Follow-up of actions agreed in 2016/17.	F	This work will be undertaken at the same time as the audit above.	

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Public Health and Wellbeing	Quality Assurance Improvement Programme: residential care and nursing homes.	Consideration of the adequacy and effectiveness of the quality assurance programme in driving improvements in service delivery across the regulated care sector.	1	The service's revised quality and assurance programme is not yet ready to implement, but auditors are providing constructive input to the service as it develops this. No further audit work will be undertaken in 2017/18.	Not applicable
Public Health and Wellbeing	Making Safeguarding Personal.	Assessment of the council's framework for ensuring compliance with its statutory requirements under the Care Act 2014.	1	The Safeguarding Service's staff is fully committed to the Making Safeguarding Personal programme but, although a substantial amount of work is currently ongoing to shape the service's operations around the programme's priorities, the service's working practices are not yet fully aligned with these priorities. Service users' lack of mental capacity is not always addressed and supported with advocacy where required, and it cannot always be demonstrated that a decision has been made in the best interests of the adult concerned. There are issues in the handling of safeguarding enquiries, and a backlog of safeguarding alerts (although additional resources have been provided to address this).	Limited
Public Health and Wellbeing	Contract monitoring: sexual health service.	Audit of the system to monitor contracts for the provision of the sexual health service.	1+2	Work is ongoing, although detailed testing will take place early in 2018 and will inform the more strategic audit of public health commissioning.	
Public Health and Wellbeing	Planning to address emergencies and civil contingencies: central planning.	Follow-up of the work completed by the Emergency Planning Team since the audit in 2016/17 to understand the team's progress in completing its action plan.	F	We will follow up the action being taken by the central Emergency Planning team towards the end of the year at the same time as emergency planning within individual services is audited.	
Public Health and Wellbeing	Planning to address emergencies and civil contingencies: planning within services.	Audit undertaken through the Emergency Planning Service of operational services' resilience plans and the work to both support these and to integrate them across the council's work.	2	This audit will take place towards the end of the year.	
Schools' Financial Management	Oversight of schools' financial management.	Follow-up of the actions agreed in 2016/17.	F	Part of this work has been addressed within the two audits below and work is ongoing with the head of service for financial management (development and schools) to address the remaining actions.	
Schools' Financial Management	Schools Financial Value Standard (SFVS) self-assessments.	Review of a sample of SFVS self-assessments submitted by schools for 2016/17 to ensure that their assertions are supported by adequate evidence.	2	The schools we tested had completed self-assessments of their financial controls under the Schools Financial Value Standard as required and were able to provide sufficient appropriate evidence to support the statements they made for 2016/17. Some points of good practice have been drawn out and will be published on the Schools Portal by the Schools Financial Service to support general improvement across all schools. (Reported in September 2017.)	Substantial
Schools' Financial Management	Financial and governance controls within the county's schools.	Following work to understand the council's central oversight of the county's schools in 2016/17 and the outcome of our audit of SFVS self-assessments, we will carry out a thematic audit in a sample of schools across the county of policies, processes and compliance in a specific area.	1+2	Work has begun on an audit of the effectiveness of arrangements for managing school budgets that will include visits to a number of schools.	
Financial Management	Recovery of costs/ available income from partner organisations.	Assessment of controls across a sample of service areas to address the risk that the council does not fully recoup appropriate costs or income from partner organisations, including NHS contributions to care packages, or else takes on their roles at its cost.	1+2	Planning for this audit has begun.	
Corporate Commissioning	Commissioning, design and monitoring of the capital programme.	The first phase of this audit was undertaken in 2016/17 and will be continued in 2017/18, with compliance testing of the controls in place as they become embedded during the year.	1+2	The risk and control framework has been agreed and detailed testing has begun.	

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Corporate Commissioning	Health and safety of the council's properties.	Assurance over the process to ensure that statutory and other necessary checks on the health and safety of the council's properties are carried out. This will include compliance with corporate strategy, policies and procedures and the use of the new Property Asset Management System.	1+2	Testing has begun. This audit is being undertaken separately from, but aligned with, the audit of health and safety compliance.	
Corporate Commissioning	Better Care Fund.	Maintaining a watching brief over the governance arrangements for the council's use of the improved Better Care Fund.	1	This work is ongoing and will not result in specific audit assurance during 2017/18.	Not applicable
Economic Development	The framework of economic development across Lancashire.	We will gain an understanding of the work of the Economic Development team so that we are better able to support the service and, in due course, provide appropriate assurance over its operation.	1	We have drafted a framework for our internal use to support our understanding of the work of the Economic Development team and inform our audit planning for 2018/19.	Not applicable to this work
Economic Development	Lancashire Enterprise Partnership: governance and accountability	Follow-up of the actions agreed during 2016/17.	F	This work has been done with the work above (to gain a better understanding of the service) and a report is being drafted.	
Control framework: Service support					
Corporate Services (Programmes and Project Management from January 2018)	Core systems for managing capital projects – PPMS, PAMS, HAMS.	Work to understand the core system central controls supporting management of the council's assets: Programme & Project Management System (PPMS), Property Asset Management System (PAMS), Highways Asset Management System (HAMS). This work will be closely linked with work on the capital programme and in Community Services.	1	Some work has already started but will continue into 2018.	
Corporate Services	Recruitment: the process from start to finish to bring new staff productively into the council.	An overview of the recruitment process from start to finish to document the steps and timeline to recruit and equip new staff. This will involve a number of different services and will be undertaken in conjunction with work that Corporate Services staff are also undertaking.	1	The Human Resources team's own review of the current recruitment process is still progressing and our work will be delayed until this is complete.	
Corporate Services (Programmes and Project Management from January 2018)	Children's Services' LCS system helpdesk.	Audit of the provision by the helpdesk of advice and guidance to social workers in the use of the LCS system, and correction of their errors on request, to ensure data on LCS is accurate.	1+2	Testing is continuing on this work, although it is reliant on the support of the Core Systems team, which is under some pressure at present.	
Corporate Services	Amendments made to both the LAS and LCS systems (for adults' and children's services respectively) to support changes to working practices.	Work to gain an understanding of the system developments made as operational working practices are reassessed and changed, so that we will be better placed to provide support and to plan future assurance work.	1	A risk and control framework has been drafted and is ready for review, but no further work is planned for the current year.	Not applicable to this work
Democratic Services	Management of surveillance system recorded data.	Assessment of the council's compliance with the council's revised overt surveillance policy (including the use of CCTV) addressing the gathering, storage, use and disposal of data recorded through the surveillance system.	1+2	A risk and control framework has been developed, and the managers involved are now developing an action plan to implement a more effective control framework. Further audit work will take place only once management is satisfied that the management of surveillance data is adequate.	Will not be provided this year
Programmes & Project Management (Corporate Services from January 2018)	Apprenticeship Levy.	Initial advice to assist the service to establish the risk and control framework associated with control of use of the Apprenticeship Levy by the council and the schools whose staff is employed by the council, followed by evaluation of compliance.	1+2	A risk and control framework has been agreed with the head of service for learning and development, and we will undertake compliance testing in the fourth quarter once there is sufficient activity from which to select a sample.	

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Control framework: Business processes					
Systems Control	Access controls and system security.	A single audit, across Oracle as a whole, of controls over user access to the council's financial systems, including access by non-LCC staff.	1+2	Planning has begun for this work, which will take place at the end of the year.	
Systems Control	Accounts payable: central controls.	Audit of the controls in place over the central accounts payable function, including oversight of the accounts payable process as a whole. We will address the system configuration and, as appropriate, controls over feeder file transfers, separation of duties, splitting of orders, receipting, authorisation of requisitions and payments, duplicate payments, changes to masterfile standing data and timeliness of payments.	2	Testing is now taking place.	
Public and Integrated Transport	Accounts payable: service-based controls Caring and Responsive Transport (CART) payments to taxi operators	Audit of the controls in place within CART as an accounts payable feeder system, to ensure that the transactions recorded represent valid charges for goods and services received, and are authorised on a timely basis in accordance with the relevant scheme of delegation.	1+2	This system is adequately designed and effectively operated, although a number of actions have been agreed to further mitigate some risks. These include the need to ensure that signed agreements are held with all taxi operators to confirm contractual arrangements, and to review and amend access permissions.	Substantial
Public and Integrated Transport	Accounts payable: service-based controls Repair and Maintenance Programme (RAMP) system payments	Audit of the controls in place within RAMP as an accounts payable feeder system, to ensure that the transactions recorded represent valid charges for goods and services received, and are authorised on a timely basis in accordance with the relevant scheme of delegation.	1+2	Controls ensure that purchases for vehicle parts represent valid and appropriate expenditure and that payments are consistent with the orders raised. However there are some weaknesses in the wider control environment, and in particular a lack of segregation of duties, high expenditure limits and insufficient review of expenditure that together leave the risk of inappropriate expenditure inadequately mitigated.	Limited
Public and Integrated Transport	Accounts receivable: service-based controls Repair and Maintenance Programme (RAMP) system receipts	Audit of the controls in place within the RAMP system, as one of the accounts receivable feeder systems, to ensure that all income due is invoiced and received on a timely basis.	1+2	Services and repairs for external customers are appropriately recorded and invoiced. At present these are not adequately supported by contract documentation so that there are inconsistencies between the amounts actually charged and the rates agreed.	Substantial
Exchequer Services	Accounts receivable and debt management: central controls.	Audit of the controls in place, including system configuration, to support the central accounts receivable and debt management functions, with compliance testing of those controls and follow-up of the actions agreed in 2016/17 where relevant.	1+2	The centrally managed controls over the council's accounts receivable and debt are generally adequately designed and effective in operation. Invoices are raised within operational services but many are raised some weeks after the service has been provided. The central debt collection team has also been subject to some staff vacancies and there have been delays in the debt recovery process, but the overall focus of debt management has shifted to address debt at an early stage when it is more readily collectible.	Substantial
Exchequer Services	Cash and banking: central controls including checks over completeness and compliance in other locations.	Compliance testing of the key controls over the central cashiers function, and by cashiers over cash taken and held in other locations. The work will include follow up of actions agreed following the 2016-17 audit review in this area.	2	Compliance testing has been interrupted by staff sickness but will continue in 2018. This work may fall into early 2018/19.	
Financial Management (Operational)	Management information and budgetary control.	Gaining an understanding of, and confirming by testing, the way key budgets are managed, to connect with the need to achieve cost savings.	1+2	The annual revenue budget is accurately recorded in Oracle and high-level budget reporting informs member and senior manager oversight. Budget monitoring by service managers is supported by regular reporting and officers from the Financial Management team. However the council's broader financial position remains extremely challenging, and projections of the overall position in future years are subject to significant variations from quarter to quarter.	Substantial

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Corporate Finance	Oracle general ledger.	Compliance testing of the key controls, including system configuration.	2	Each of the areas of financial control addressed wholly centrally are scheduled to be undertaken during the fourth quarter of the year, but before the finance teams become busy with their year-end closure work.	
Corporate Finance	Oversight of payroll payments.	Compliance testing of the key controls operated by the council to ensure it properly oversees the processing of transactions on its behalf by BTLS.	2	Each of the areas of financial control addressed wholly centrally are scheduled to be undertaken during the fourth quarter of the year, but before the finance teams become busy with their year-end closure work.	
Corporate Finance	Treasury management.	Compliance testing of the key controls, including system configuration. The review incorporates the following elements - investment management and oversight and compliance with the Treasury Management Strategy. The review will also include follow up of the agreed actions from the 2016-17 audit.	2		
Corporate Finance	VAT.	Compliance testing of the key controls, including system configuration. The review will also include follow up of agreed actions from the 2016-17 audit.	2		
Health and Safety	Health and safety compliance.	Assessment of the compliance service – the second line of defence – in assuring controls over health and safety across the organisation. This will specifically incorporate testing of arrangements in Highways and Design and Construction.	1+2	This work is scheduled to take place early in 2018.	
ICT systems	Determination of the appropriate areas for audit.	External support is required to work with BTLS as well as Corporate Services to properly assess the ICT audit work that is appropriate and achievable.	n/a	Support to the Internal Audit Service from a specialist provider is being sought through a procurement process. The specification is being developed with the support of the council's Procurement and Legal teams, and it is intended that a supplier will have been identified and in place by March 2018.	Not applicable
Information management	Information governance.	Assessment of the controls in place to ensure that the statutory requirements of the Freedom of Information Act and Data Protection Act are met, with compliance testing.	1+2	There are many examples of good practice within the team. It processes requests and provides appropriate responses effectively, although not all are issued within the statutory timeframes. The case management system is not currently configured to realise the benefits of an integrated case management system, but the team is working to change this.	Substantial
BTLS: payroll processing	Payments on account and over-payments.	Audit of the processes by which payments on account are made, and the ways in which over payments occur.	1+2	All the audit work addressing BTLS's payroll processing is being undertaken together. Initial work has started and more testing will take place in early 2018.	
BTLS: payroll processing	Effectiveness of inputs to the system: the inputs required and how they are processed.	Audit of the revised processes within the council to provide BTLS with appropriate inputs to the payroll system, focusing on changes.	1		
BTLS: payroll processing	Processing of payments by BTLS, using information supplied by the council.	Compliance testing of key controls only, following full assurance over this process in 2016/17.	2		
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders.	Follow-up of the actions agreed in 2016/17.	F	This work will be undertaken at the same time as compliance testing below.	
		Compliance checks on a selection of key contracts let during the year.	2	This has started and testing is almost complete.	
Procurement	E-tendering.	Assessment of the ease of use of iSupplier for potential suppliers, to inform an understanding whether the council is fully compliant with procurement regulations.	1	We have developed a risk and control framework and concluded that the system is adequately designed to achieve its objectives, but have not undertaken further testing of the system's effectiveness in operation.	Substantial

Service area	Operational area of activity	Audit work	Type *	Progress/ findings	Assurance
Procurement	Purchase cards.	Audit of the use of procurement cards.	1+2	The work has been completed and a report is currently being drafted.	
Funding and grant certification					
Economic Development	Growth Hub Grant 2016/17.	Verification that £328,000 BIS funding has been spent in accordance with conditions set by the Department for Business, Innovation and Skills funding.	n/a	The work has been completed and a grant certificate issued. (Reported in September 2017).	Not applicable
Economic Development	Growth Deal 2016/17: Local Growth Fund.	Verification that Growth Deal monies have been spent in accordance with conditions set by the Department for Communities and Local Government.	n/a	The work has been completed and a grant certificate issued. (Reported in September 2017).	Not applicable
Economic Development	Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance)	Verification that £27.208 million has been spent in accordance with the conditions set by the Department for Transport.	n/a	The work has been completed and a grant certificate has been issued covering both these allocations of grant funding.	Not applicable
Economic Development	Pothole Action Fund.	Verification that £1.241 million Challenge Fund Grant monies have been spent in accordance with conditions set by the Department for Transport.	n/a		
Economic Development	Highways Maintenance Challenge Fund: upgrading of street lighting and M65 motorway maintenance.	Verification that the £5 million combined allocation of funding has been spent in accordance with the conditions set by the Department for Transport.	n/a	The work has been completed and a grant certificate issued.	Not applicable
Public Health and Wellbeing	Verification of claims made under the Troubled Families Programme.	Testing of 10% of all claims made, as stipulated by the Department for Work and Pensions.	n/a	Testing for the October 2017 claim is complete, and testing continues to be undertaken monthly in advance of the next claim in January 2018.	

Audit assurance levels and classification of residual risks

Please note that these definitions are subject to review and will be amended for 2018/19.

Assurance levels

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Classification of residual risks requiring management action

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently*.

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken*.

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable*.

Deloitte LLP's audit assurance levels and classification of residual risks, relating to its work on the Lancashire Pension Fund

Rating	Description of risk mitigation and control effectiveness
Ineffective	Risk mitigation or control absent or ineffective – high risk of failure in prevention, detection, and risk mitigation and/ or control activities for audited functions, processes and activities. Multiple high priority findings/ issues or significant number of either high or medium priority findings/ issues.
Effective with scope for improvement	Risk mitigation activities and controls may be compromised or fail – moderate risk of failure in risk mitigation and control with some need and justification to improve risk mitigation and control activities for audited functions, processes and activities. Some high priority issues or a significant number of medium and low priority findings/ issues.
Effective	Compliant (adequate in the circumstances) – low risk of failure in risk mitigation and control and some scope or justification to improve risk mitigation and control activities for audited functions, processes and activities. No high priority findings/ issues. Some moderate and low priority findings/ issues.

Rating	Description of risk mitigation and control effectiveness
High	The issue presents a risk that involves a direct exposure to significant assets or a significant potential financial loss. Lack of appropriate controls could have a considerable impact on operations, compliance with laws and regulations, or financial results.
Medium	The issue presents a risk, which involves an indirect exposure to significant assets and could have a moderate impact on operations, compliance with laws and regulations, or financial results.
Low	The issue and associated risks have limited impact on operations, compliance with laws and regulations, or financial results.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2018

Electoral Division affected:
(All Divisions);

Risk and Opportunity Register Quarter 3
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

This report provides an updated (Quarter 3) Risk and Opportunity Register for the Committee to consider and comment upon.

Recommendation

The Committee is asked to consider and note the updated Risk and Opportunity Register at Appendix 'A'.

Background and Advice

Following the corporate approach to reporting on risk and opportunity the quarter 3 Risk and Opportunity register was recently reported to Management Team. Following this the Register was also presented to Cabinet Committee for Performance Improvement on 6 December 2017. An updated Risk and Opportunity Register is attached at Appendix 'A' and the Committee is asked to comment upon it.

For this quarter the key highlights in the register include:

- No new entries to the register.
- One deletion
  - CR28 Risk of not fulfilling our duty in relation to Court of Protection applications
- allowing for mitigating actions, the residual risk score for the following entries remain 12 or above so the issue remains on the register:

Risk Identification Number (RIN)	Risk Description
CR1	Failure to implement the county council's MTFS. Updated but residual risk score remains unchanged.
CR2	Risk to the on-going financial viability of the county council. Updated but residual risk score remains unchanged.

Lancashire County Council

CR4	Delivering Organisational Transformation. Updated but residual risk score remains unchanged.
CR5	Inability to adequately protect and safeguard children. Further mitigating actions added. Residual risk score remains unchanged.
CR6	Failure to comply with statutory requirements and duties relating to CLA, children in need and children leaving care. Further mitigating actions added. Score remains unchanged.
CR7	Failure to recruit and retain experienced staff within Children's services. Further mitigation actions added. Residual risk remains unchanged
CR8	Reputational damage and risk of direct intervention by DFE. Further mitigation actions added. Residual risk remains unchanged.
CR12	Inability to implement/maintain systems that produce effective management information. Further mitigating actions added but residual score remains the same.
CR16	Management of the County Council's assets. Further mitigating actions added but residual score remains the same.
CR20	Transforming care (Winterbourne). Residual score remains at 12.
CR21	Service user/customer risk associated with the inability to influence behaviour change in demand and expectations continue to rise. Controls and mitigating actions updated but residual score remains at 12.
CR24	Failure to achieve targets with National Troubled Families Unit. Remains unchanged.
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities remains unchanged.
CR26	Proposed museums closures. Further mitigating actions added but residual score remains the same.
CR27	The mobilisation of the home care framework and subsequent service transfer process. Mitigating actions are being put in place but the residual score remains the same.
CR29	Delayed Transfer of Care. Controls and mitigating actions have been agreed but the residual score remains above 12.
CR30	Prevent people being drawn into terrorist activity. Controls and mitigating actions have been agreed to fulfil our duty but the residual score remains above 12.
CO1	New Model of Public Service Delivery. Update on shadow combined authority.
CO2	Delivering economic growth. Further maximising actions added.
CO4	Health & Social Care Integration. Narrative no change
CO5	Apprenticeship levy and apprentice % in public sector. New opportunity that has been added to the register.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a Corporate Risk & Opportunity Register means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

Financial

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix A: Corporate Risk & Opportunity Register Q3 2017/18

Risk Identification Number (RIN)	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 medium 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	• Recommendations from Zero Based Budget Review agree by Full Council on 9th February 2017. • Improve commercial and financial acumen. • Continuously revalidate budget assumptions. • Communicating with stakeholders to ensure an understanding of the council's financial position and need for change. • Communicating specific proposals and service developments in the context of the financial scenario. • Programme Office supporting services to deliver savings and bring forward savings wherever possible. • An additional £2 billion to councils over the next 3 years to spend on adult social care services. For the council this equates to £48M. • Work being undertaken to identify lowest quartile offer as part of budget savings • October Cabinet agreed further savings subject to Equality Impact Assessments • Forecast underspend of £15.758m on the 2017/18 revenue budget. The forecast position includes £53.638m from reserves. • November, December and January Cabinet noted the revised Medium Term Financial Strategy and agreed several budget proposals for consultation, where necessary with the Trades Unions, the outcome of the consultation to be reported back to Cabinet at a future meeting.	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 issues 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	• Risk of the county council not being able to meet its statutory obligations by 2018/19 validated by PWC • Zero Based Review activity (focus on lower quartile) 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) • Development of response to the Treasury and DCLG of future needs assessment/allocation formula.	25	MT	Level

Appendix A

						• Communicating with stakeholders to ensure an understanding of the councils financial position and need for change • Communicating specific proposals and service developments in the context of the financial scenario. • An additional £2 billion to councils over the next 3 years to spend on adult social care services. For the council this equates to £48M • October, November, December and January Cabinet agreed further savings subject to Equality Impact Assessments • Forecast underspend of £15.758m on the 2017/18 revenue budget. The forecast position includes £53.638m from reserves. • November, December and Janaury Cabinet noted the revised Medium Term Financial Strategy and agreed several budget proposals for consultation, where necessary with the Trades Unions, the outcome of the consultation to be reported back to Cabinet at a future meeting.			
CR4	Delivering organisational transformation including capacity, capability and resilience	Organisational	The failure to clearly implement the draft 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. Failure to deliver sizeable saving programmes	• 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. • Existing change/programme management support already committed and risk of slowing down this delivery if divert to other major change opportunities including LD. P2I programme has highlighted the need for extra capacity and skill to drive and direct large scale programmes and for the organisational need to build that skill and expertise and augment with external recruitment.	16	• Interim structures to reflect the base budget review options are being developed and implemented. • Independent challenge • See specific actions in relation to other risk entries i.e. Ofsted inspection • Use of transformation reserves to fund temporary staffing • Implementation of recruitment and retention strategies • Defining new service models across the organisation • Children's service transformation – pilot programme in Fylde & Wyre - ongoing • Extensive information is made available through the councils website which is also used by the customer service centre as a core council information resource • Promoting recognition and benefits of working at the council • Capitalise on the support and expertise that is currently available via Newton Europe to start the identification and skill development of key personnel to a transformation type team and look to use apprenticeship levy to fund training and support • New Senior Management Structure to be implemented wef January 2018	12	MT	Level

CR5	Failure to adequately protect and safeguard children	Social	Children are put at risk of harm.	• MASH (Multi-Agency Safeguarding Hub) to ensure appropriate multi-agency response where there are safeguarding concerns about a child. • Serious incident reporting to ensure appropriate management oversight. • Quarterly Safeguarding Report, including LSCB. • Serious Case Review learning shared to improve safeguarding practice. • Case file audits to promote learning. • Multi-agency inspections. Sector led Peer Review. Challenge undertaken. • Supervision with HOS. • Performance monitoring - action taken to address areas of underperformance.	25	• Caseloads are in line with Improvement Board targets for "good and outstanding". • MASH redesign has progressed - 3 virtual locality teams now in place and consistent working practices established. • Director of Children's Services "line of sight" to frontline practice to ensure adequate protection and safeguarding of children in place. • Heat maps established to monitor performance. • Increasing numbers of experienced workers in post: April 17 - over 50% of Social Workers (SWs) were ASYE (Assessed & Supported Year in Employment), in Aug 17 this had reduced to 42%. Likewise the proportion of SWs with 3 or more years' experience has grown from 22% (Apr 17) to 34% (Aug 17). • Ofsted Monitoring Visit October 2017 - improvements noted in quality of practice - "good to requires improvement"; practice is compliant with statutory requirements; audit effective and leads to actions (Focus on Children In Need CIN).	16	Director of Childre n's Services	The risk is being managed and continues to reduce.
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 to ensure appropriate management oversight. • Serious Case Review learning shared. • Peer Review and Challenge. • Stronger management oversight in Districts. • Advanced Practitioners in post. • Case file audits check compliance and quality of practice. • Multi-agency inspections. Sector led Peer Review. • Performance monitoring - action taken to address areas of underperformance.	25	• Ofsted Monitoring Visit October 2017 - improvements noted in quality of practice - "good to requires improvement"; practice is compliant with statutory requirements; audit effective and leads to actions (Focus on CIN). • Work in line with residential and sufficiency strategies is being progressed.	16	Director of Childre n's Services	The risk is being managed and continues to reduce.
CR7	Failure to recruit and retain experienced Social Work staff Failure to recruit and retain Independent Reviewing Officers. Failure to recruit and retain experienced BSO staff.	Organisatio nal	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	• Vacancy monitoring. • Children's Services Workforce Development Strategy and scorecard developed to improve recruitment & retention of staff. • Quarterly Safeguarding Report.	25	• As at April 17 over 50% of Social Workers were Assessed & Supported Year in Employments. In Aug 17 this had reduced to 42%. Likewise the proportion of SWs with 3 or more years' experience has grown from 22% (Apr 17) to 34% (Aug 17).	16	Director of Childre n's Services	The risk is being managed and the position is improving overall, although there are still parts of the county where recruitment & retention remains a significant challenge.

CR8	Reputational damage and risk of Direct Intervention by DFE. Negative media exposure.	Reputational	DFE manages services directly and removes them from the LA. Commission arrangements brought in. Loss of reputation. Impact on partner agencies.	• Safeguarding and Audit arrangements. Direct management oversight of services. • Media planning around key issues and Serious Case Reviews. Scrutiny of key reports and information. Communication with Comms Team.	25	• 6 monthly DfE review held 2/3 November, informal feedback was positive. Outcome letter awaited.	16	Director of Children's Services	The risk is being managed and is reducing.
CR12	Failure to implement/maintain systems that produce effective management information Failure to improve quality of data in Liquid Logic's systems (LCS/LAS) Operational failure in the main IT Computer Suite (T101) Management Team and Cabinet need to consider service level required for business intelligence because there are insufficient resources to meet current need	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. Statutory returns will be compromised, so incorrect performance will be reported nationally. OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. Service planning and management will be severely compromised. Reliance on uninterrupted operation of T101 cannot be over emphasised. Power up following an uncontrolled failure takes 5 times longer than after a controlled shutdown. Impact on service delivery	• Information management strategy. Data Quality processes. Oracle. Local Information Systems. Corporate performance information. JSNA and other needs assessments • Weekly provision of information to operational managers. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. Use of exception reports to flag up data quality issues. • Over £200k has been invested to improve the back-up services for T101 to improve reliability. However, there are still potential risks regarding A/C cooling, maintenance of UPS units and insurance requirements regarding fire alarm links • External support to focus on Children's Services data issues. Introduction of new governance arrangements for children's services. Introduce a new performance management framework that is aligned to draft corporate strategy. • Accuracy Working Group and performance management framework ensuring continued use of management reports within children's social care were established • Multimillion pound refurbishment programme including upgrading the electrical infrastructure of county hall complex - to improve the reliability of the IT Suite.	15	• 'Passport to Independence' reporting work stream incorporating exception reporting. • 'Project Accuracy' for Adults Services focussing on procedures and data quality is now underway. • Continued monitoring of data within Lancashire Children's Services. Programme of work rolled out to Lancashire Adult Services. New system roadmaps developed to provide more control over system changes. Governance Boards established for Early help Module, Education, Health and care Plans module and the Education Management System. No major issues identified in recent Ofsted inspection. • Performance sub-group reporting the Improvement Board Chair • Additional temporary resource employed within Business Intelligence to provide reports for Project Accuracy 2. • Electrical works on T101 data centre have been completed with upgrades to the supply and uninterrupted power supply complete. Back-up data centre in Telecity, Manchester now up and running and providing further resilience to services.	12	MT /Head of Corporate Services /Head of Business Intelligence	Level

CR16	Management of the County Councils Assets	Organisational	Failure to maintain council owned assets and buildings. Inability to deliver in the timescale required and impact on organisational ability to achieve savings Failure to timely deliver a smaller more affordable property portfolio and associated savings. Inability to deliver service plans and savings effectively within required timescales, risks to service delivery across a number of services. Due to the high profile of Property Strategy (Neighbourhood Centres) delayed delivery could have reputational effect. Legal or public challenges.	• Effective planning and programming method of delivery. Management of organisational transition and effective engagement with operational services • 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. • Communications strategy for property strategy	16	• Cabinet at its meeting in November 2017 agreed to the re-opening of several closed libraries and the delivery of a full library service. • Re-opening of closed libraries: The majority of the book stock from the closed libraries is in central storage and will be made available again when libraries re-open. Self-service equipment has been stored and some furniture has been retained. The service has a central management and resources infrastructure which will support the reopening of libraries across Lancashire. • Cabinet agreed new facilities Management Structure to ensure a consistent approach across all properties is in place and that the county council is legally compliant. • Cabinet in October approved the delivery of a programme of works to Older People's Residential Homes	12	Head of Asset Management/Head of facilities Management	Level – In relation to assets the trend is downwards as the Premises Compliance Team improve strategic premises management activity Property strategy – risks are significant but currently managed
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 responsibility from solely NHS to a shared responsibility 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	• 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 work streams each with a defined action plan with leads identified from commissioners across Lancs. Work streams are monitored by the Steering group in addition to oversight by NHS England. The	16	• Improved engagement with procurement colleagues to ensure due process is followed operationally in meeting the needs of this population. • Lancashire's Fast track plan identifies the implementation of a revised model of care for people with LD improving crisis support through multi-disciplinary teams. • This approach is aimed at reducing admissions and supporting providers to maintain a person's tenure in their chosen house rather than re-enter hospital.	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

			therefore there is a reputational and political risk in not achieving as Lancashire is identified as a National Fast 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 reasonable figure for a dowry that is planned to follow a person from hospital (NHS) to LA's is a further financial risk.	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. • Development of a pooled budget between health and social care currently being developed. Still an interim agreement in place that funding for discharges comes 100% from health until the development of the pooled budget. Management Team have taken a position that all discharges will be funded by CCGs not by the Local Authority for the immediate future. Management Team have also committed to the development of a Pooled Budget with the NHS.		• 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 innovative solutions to providing for these peoples care • STP budget considerations • The financial risk had been negotiated with the CCG and immediate pressures remain offset whilst negotiations around the pooled budget take place.			
CR21	Service user/Customer risk associated with the inability to influence demand whilst expectations continue to rise	Reputation al/social/ec onomic/pol itical	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. Unacceptable waiting times for assessment and reviews including occupational therapy, safeguarding and social care reviews.	• 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 from complaints and oversight at CCPI.	16	• Alternative delivery options being explored as part of base budget review option development • In relation to adult and children's social care Newton Europe have been partly been engaged in this area of work • See opportunities entry on Healthy Lancashire • Early help and prevention investment in integrated wellbeing services • Children's demand management strategy • Additional capacity is being secured in key areas such as social work and occupational therapy • Realignment of management capacity in adult social care to provide improved focus on operational priorities • Clear triaging/prioritisation schemes at Customer Access Centre • Work with Newton Europe is underway to improve productivity • Working with health partners to improve arrangements around discharges from hospital • Communicating with stakeholders to ensure an understanding of the councils financial position and need for change • Communicating specific proposals and service developments in the context of the financial scenario • Financial management board monitoring budget pressures • 0-25 Board work ongoing • Adults demand assumptions – independent scrutiny and challenge by LGA • Partnership event focussing on risk and demand within children's services • Continued prioritisation of activity focussed on demand management and providing appropriate and effective placements for young people.	12	MT	↓ Downwards.

						Business case for Access to Resources Team progressed through MT and now being implemented.			
CR24	Failure to achieve targets agreed with National Troubled Families Unit team due to the specific requirements of the programme. Failure to provide robust data to evidence the impact on outcomes for those families engaged with the programme	Economic Political	Failure to accrue maximum income from the programme for the authority Possible reputational risk as a result of failing to meet the national target. Risk of additional scrutiny of Lancashire's response to the programme	• Robust tracking processes in development with view to maximising payment by result claim opportunities. • Improvement plan implementation to ensure that 'attached' cases meet national TFU principles with operational staff. • Ongoing data matching to identify new eligible families • Business case to recruit to staffing vacancies approved.	20	• Development of reporting processes to ensure monthly progress checks against targets • Business case to request additional resources to support tracking and claiming processes • Redesigning of outcomes plan to set more achievable/realistic targets • Exploration of systems that can be used to undertake the necessary analysis for Lancashire's response to the programme. • Establishment of multi-agency "engine room" to drive multi-agency partnership working. • Workforce development ongoing for CAF and LP working. • Revised CAF documentation, Quality Assurance and processes to assist in meeting requirements. • Feed into consultation opportunities provided by DCLG. Monitor outcome of review. Maximise payment by results claims pending outcome of review.	16	Head of Wellbeing, Prevention and Early Help	Upwards
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities.	Organisational	Not providing adequate service to SEND leading to inspection failure. Lack of appropriate IT platform. Failure to recruit and retain staff. Commissioning arrangements with health not consistent.	• Self-assessment completed against new framework • N/W regional peer support group established	16	• Implementation of the early help (IT) module. • Recruitment of qualified staff funded by the SEND reform grant. • Commissioning arrangements with Health being reviewed.	12	Head of Special Education Needs and Disability	Level
CR26	Proposed museum closures	Organisational/political/reputational/financial/legal	The proposal to close five museums has attracted negative publicity nationally, regionally and locally due to the national importance of the sites and collections Impact on staff leading to sickness absence Financial risk associated with not being able to close	• Regular contact is being maintained with colleagues in the commissioning team, asset management, equality and diversity, communications and business intelligence as and when required. • Decisions on process continue to be cleared through legal services and cabinet member where appropriate. • Expressions of interest have been invited for interested	16	• The County Council has committed to re-open and manage Fleetwood Museum from the 1 April 2017 until the formal transfer to Fleetwood Museum Trust as the new operator is completed. • Options Appraisal for Queen Street Mill Textile Museum and Helmshore Mills Textile Museum • Public consultation has taken place to help inform the service design and future strategy of the museum service. • Equality Impact Assessments detailing mitigating actions have been undertaken.	12	Head of Libraries, museums, culture & registrars	Level

			buildings because of the statutory responsibly to provide the service	parties who can show that they have the resources and expertise to continue operating the museums and ensuring their collections continue to be made accessible to the public. • English Heritage have indicated that they will not submit an offer following discussions aimed at the transfer of ownership of Helmshore and Queen Street Mills. There are, however, ongoing discussions with Historic England regarding these two sites. • Fleetwood Museum will reopened on Good Friday, 14 April 2017 and the county council will manage the museum until the formal transfer to Fleetwood Museum Trust as the new operator is completed, expected to be no later than the start of June 2017. • Negotiations are continuing with regard to the future operation of The Judges Lodgings and Museum of Lancashire.		• A Cabinet Working Group (CWG) with a cross party membership together with senior officer representation has been set up to ensure that any handover of buildings and services which may take place is fair and robust. • The CWG will meet on a monthly basis and make recommendations to cabinet. • Information has been circulated to assist all staff with issues which may impact upon their health and wellbeing as a result of the proposals to close buildings. • Head of service and senior service managers communicates changes to all staff on a weekly basis. • The County Council has committed to re-open and manage Fleetwood Museum from the 1 April 2017 until the formal transfer to Fleetwood Museum Trust as the new operator is completed.			
CR27	The mobilisation of the home care framework and subsequent service transfer process	Organisational/political/reputational/financial/legal	Risk of legal challenge to the tender process Risk of significant increased costs to the Council Risk of challenges in the mobilisation and transition Capacity issues within teams to support the mobilisation and transition to the home care framework and ensuring that the Council's systems are able to support the requirements of the home care framework structure. Challenges relating to providers Potential disruption caused to service users.	• Staff and County Councillor briefing notes have been shared. • Steering group established. • Mobilisation workshop with services who will be required to support the project. • Evaluation of the implications for services have been identified through a self-evaluation form completed by each service who will be impacted. • Work has already been undertaken around systems. • Council services who have been engaged have a good understanding of the implications and what needs to be done.	16	• Transforming Social Care in Lancashire Board to oversee the mobilisation of the home care framework and subsequent service transfer process and that the Home Care Mobilisation Steering Group should report to this Board for decision making. • Project directly linked to the Passport to Independence Programme and involve Newton Europe in the development of the mobilisation plan. • Management Team have agreed additional resources to support the implementation of the home care framework	12	Director of Commissioning	level

CR29	Delayed Transfer of Care (DTOC)	organisational	Service users staying longer in an acute hospital setting leads to deconditioning of service user (older people often loose skills and the physical ability to undertake activity), which increases reliance on social care post discharge and as a result an increased cost. Increased pressure on adult social care. Cost to the health economy, as prolonged hospital stay, will increase tariff. Effect on relationships with health economy and wider political impact. Inability to agree or deliver DTOC targets. Inability to manage short term pressure for reablement services.	• Regular data set produced and analysed by business information. • Cluster boards for P2I for reablement and acute joined to ensure good coms. • Focus at Better Care Fund (BCF)meetings • iBCF spending plan, which is intended to have positive impact on DTOC, agreed by HWBB in August 2017.	20	• Commissioning of a home care framework. • Increasing capacity of reablement service. • Implementation of eight high impact changes using BCF monies to facilitate. • Roll out of passport to independence in an acute setting • iBCF spending plan, which is intended to have positive impact on DTOC, agreed by HWBB in August 2017. • Development of dashboard to provide better Management Information within LCC. Proposed discussions to ensure that activity related to DTOC Dashboards is joined up across the STP. • Health & Well Being Board Review - November 2017. • Proposed Health Scrutiny review - January 2018. • Mitigating actions above will not enable DTOC targets to be met within agreed timescales.	20	Dir of Commissioning	Upwards
CR30	Failure to Prevent people being drawn into terrorist activity	Social	People suffer harm as a result of a terrorist incident.	• Burnley district has been identified as a level 2 priority area. • Multi -agency Contest Board in place and key risks identified to Lancashire Chief Executives Group. • Multi-agency Prevent delivery plan in place. • Local Risk Assessment Process in place. Channel process in place for referrals and intervention. • Robust reporting structures in place to respond to concerns/problems. Training Programme in place. • Safeguarding policy and procedures reflects Prevent Duty. • Other relevant policies and procedures including ICT reflect Prevent Duty. • Engaged with a range of civil society groups. • Established reporting structures in place.	20	• LCC Prevent Duty Strategy and Development Plan 2016/18. • Prevent Duty E-learning mandatory for key frontline and safeguarding staff (available on intranet for all staff, however, those staff without access to ICT the Prevent training is delivered through other mediums e.g. team briefing, newsletters, leaflets). • LCC attend Contest Board. • LCC Vice Chair of Lancashire Prevent Delivery Partnership (LPDP), other key services reps attend. LCC reps also attend Lancashire Hate Crime and Cohesion Group, Lancashire Adults and Children's Safeguarding Boards and Lancashire Schools Equality Group. LCC Vice Chair of Lancashire Channel Panel. • LCC Single Point of Contact (SPOC) links in with Emergency Planning and Lancashire Resilience Forum through HoS Health, Safety and Resilience. How to report concerns guide on LCC intranet. • LCC SPOC appointed as Home Office Prevent Peer which enables learning good practice from across England & Wales. • Prevent Duty built in to policies and procedures. LPDP currently developing Lancashire Prevent Communications plan with the pan Lancashire Communications group – LCC Communications rep part of process, expected November 2017. • LPDP Communications plan will include:- Lancashire wide messages responding to	20	Dir of Commissiong	Although mitigation actions are in place and the County Council has demonstrated that we are meeting requirements of the Prevent Duty the residual risk score remains high to reflect nation threat level

						incidents, safety messages, busting myths, promoting good news stories, sharing information through social media etc. • Following the recent elections the arrangements for Political Governance and Information Sharing hare changed. Issues will be reported to cabinet as appropriate.			
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.	• Shadow Combined Authority established and meeting monthly, having received endorsement from all participating authorities. Lead Members identified for work streams and regular update reports to the Shadow CA indicate good progress. • Discussions around the establishment of a Public Services Board are well developed, to be finalised in Jan / Feb 2017, to enhance engagement with other public sector partners. Initial discussions on a possible devolution deal for Lancashire underway. Successful bid for One Public Estate funding, and Property Board being established.	12	• All Lancashire authorities, with the exception of Wyre, continue to meet as a Shadow Combined Authority. Ribble Valley and Fylde have stated that they would not join a CA on the current terms, and LCC recently decided at Full Council that we are opposed to a directly elected Mayor. • At the last meeting in September, it was agreed to write to the Secretary of State to establish the government's position on the option of a CA without an elected mayor and the likely devolution deal that might be available. The next meeting on 23 November will consider the SoSs response and seek to establish the positon of all authorities, and the possible next steps.	16	CEX	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.	12	• Work with local authority partners 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. • EDRF project 'Boost' has secured grant funding agreement until end of 2018 • Recent Growth Deal settlement of circa £70m will provide resource for six key projects to advance over the next three years. We are now looking to the consultation on the Industrial Strategy Green Paper, including the NPIF, to identify how the resource which lies behind this programme	16	Director of Economic Development	↑ Upwards

						might effectively be targeted within Lancashire. We are now looking to a further bid which could take the project to 2020. • Whilst the opportunity to secure EU funds (underwritten by HMG) looks more positive in the medium term, we are also preparing in the event that EU Structural funds are replaced with competitive rounds of regional productivity funding. More may be signalled on this as the government's Industrial Strategy is confirmed.			
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 Sustainability and Transformation Partnership (STP). • Influencing and shaping the process to take account of Combined Authority objectives if and where appropriate. • Aligning, where appropriate with existing work at a pan Lancashire level, and within individual health economies. • Consideration of new models of delivery and potential new funding arrangements, such as pooled budgets where appropriate.	12	• Recognise the need for: an ambitious vision, robust partnerships, clear and credible delivery plans, and strong leadership and governance arrangements at a pan-Lancashire level. • Lead the integration agenda, recognising the need for an ambitious vision, robust partnerships, clear and credible delivery plans. Strong leadership and governance arrangements at a pan-Lancashire level. • Consultation on new governance framework.	16	MT	Level
CO5	Apprenticeship Levy and Apprentice % in Public Sector	Political Economic Social Reputational Organisational	Increase in Apprentices in the workforce and use the Apprenticeship levy to its maximum benefit to support critical development needs in the County Council	The Apprenticeship Levy is live from April 2017 and the first payment from the digital account was in May 2017. Work is being undertaken across LCC with Heads of service or their representatives to discuss their overall workforce development and what part the Levy could play in this.	12	• Maximise the benefits of the Apprenticeship Levy within LCC by working in conjunction with Management Team, Finance and HR to embed this into structures across the organisation. • Working with services to identify the quick wins where these suit their business need and to thus eliminate training expenditure where we can, and link to Levy fund. • L&D are speaking to Heads of Service to see how their training needs can be creatively addressed to link with the Levy, where possible. • Heads of Service have been asked to report to L&D any current areas of training expenditure commitment that they have entered into. Heads of Services have been asked not to enter into any further financial commitments without speaking to L&D	15	HoS Learning & Development	Upwards

Key to Scores

	CATASTROPHIC (for risk) OUTSTANDING (for opportunity)	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			

Audit, Risk and Governance Committee
Meeting to be held on 29th January 2018

Electoral Division affected: N/A

Liquid Logic System Update

Contact for further information:
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Executive Summary

The Audit, Risk and Governance Committee received a report in June 2017 that set out the improvements made to the Liquid Logic system, the proposed next steps for the system and an update on how governance arrangements for system developments and implementations had been progressed.

At the request of the Committee, this report provides a further update outlining action taken in relation to the Liquid Logic System over the past 6 months.

Recommendation

The Audit, Risk and Governance Committee is recommended to consider the report and comment as appropriate.

Background and Advice

In June 2017, the Audit and Governance Committee received a report that set out the latest position on the Liquid Logic Social Care Systems for Children and Adult services and updated on progress made to date. The report set out the principle issues and the actions being put in place to resolve them. The report also outlined new governance arrangements which had been put in place to enable an improvement in the management and control of systems and the understanding of roles and responsibilities.

The principle issues reported were:

- Misalignment of staff hierarchies and Liquid Logic Adult Services (LAS) and Liquid Logic Children's Services (LCS) and delays in keeping systems updated and accurate;
- Uncoordinated system changes requested and unclear ownership and responsibility for the systems requiring clearer governance arrangements;
- Quality and accuracy of data within the systems and a backlog in the required data cleansing process;

Lancashire County Council

- Delay in updating 'Date of Death' information on LAS;
- Maintaining a consistent and sustainable BAU operating model to prevent the re-occurrence of issues;
- Management of providers still using paper invoices.

Whilst some actions were reported through the previous report presented in June 2017, this current report provides additional information.

Progress to Date

- Misalignment of staff hierarchies and Liquid Logic Adult Services (LAS) and Liquid Logic Children's Services (LCS) and delays in keeping systems updated and accurate:

Work to ensure that social work structures, authorisation levels etc. are accurately reported within LCS is now complete. The maintenance of this information forms part of the Business as Usual (BAU) operating model. A similar process for LAS is nearing completion.

- Uncoordinated system changes requested and unclear ownership and responsibility for the systems requiring clearer governance arrangements:

Strong governance arrangements continue to be in place across both LAS and LCS as detailed below:

System ownership for all systems has been transferred to the Core Systems/ Transformation team with dedicated, named resource attached to the system. This first line of contact will be crucial in ensuring a line of sight for the Director of Adult's Services and the Director of Children's Services on all system related activity.

Portfolio Review Boards are now in place for key service areas including LAS and LCS to enable the 'Business Users' to be actively engaged, make 'key decisions', understand and be more responsible/accountable in the systems they use. These have been developed with key managers across Adult and Children's Services.

System development roadmaps have been developed for both Adult and Children's Services. These provide the key monitoring document for senior managers within the service. The documents will require the agreement and approval of the Director of Adult Services and the Director of Children's Services.

Best practice guidance for all system implementations has been developed and will be followed in all cases. The Core Systems/Transformation team will be responsible for carrying out the overview and co-ordination role for all changes to systems in consultation with service managers, Directors and through the relevant Portfolio Review Board.

A series of working groups have been established and meet on a regular basis, chaired by senior staff. These report regularly to the Adult Services Senior Management Team and the Children's Services Senior Management team. Sign-off and approvals are required, in most instances, by the Director of Adult Services or

Children's Services to ensure that senior management oversight of issues remains part of the ongoing 'business as usual' processes.

- Quality and accuracy of data within the systems and a backlog in the required data cleansing process:

<u>Liquid Logic Adults – Project Accuracy</u>

Following on from the success of Project Accuracy for Children's Services Project Accuracy for Adults was initiated in June 2017. The primary focus was to improve the accuracy and quality of data contained in LAS and associated systems and to ensure that managers and teams within Adult Social Care have the information they need to manage their work, and are confident in its accuracy. This has included the:

- Alignment of the hierarchy structure with Oracle and the reiteration of processes for BAU change, thus allowing Business Intelligence to support checks in data accuracy, and to be able to identify and support improvements

- Clarification of business processes, addressing and correcting issues or gaps identified,

- Updating the Adults Roadmap with identified projects from Project Accuracy Core Groups.
-
- Clearance of the data cleansing backlog

PROJECT NAME	CPLI's	Status
Domicillary Support Living (External) (Sleep In)	3120	Completed
Care Navigation Back Log	2200	Completed
Autism Pricing Agreements (Controcc)	10000	Completed
Business As Usual Backlog	830	Completed
Telecare	14	Completed
Incorrect Frequency	331	Completed
Postcodes for ContrOCC Performance Test	136	Completed
Postcode Data Cleanse	1500	Completed
Overlapping CPLI (Residential) Data Cleanse	257	Completed
Rolling Respite	30	Completed
Unactivated CPLI Data Cleanse	111	Completed
Extra Care	142	Completed
Direct Payment One Offs	1300	Completed
Extra Care - Corrections	142	Completed
Reablement	500	Completed

All significant data cleansing 'backlogs' have now been cleared, and data management has progressed to a BAU status undertaken by the Care Navigation team.

- Delay in updating 'Date of Death' information on LAS:

Issues were highlighted in the previous report regarding the delays experienced in recording 'date of death' information within the Liquid Logic System, causing significant impacts on system efficiency.

Care Navigation are now receiving notifications of death directly through registrar's records, and are actively updating the Liquid Logic system as a priority. This has delivered improved data accuracy within LAS.

- Maintaining a consistent and sustainable BAU operating model to prevent the re-occurrence of issues:

The last report outlined how changes in the operating model could contribute to the overall effectiveness of the commissioning system for Adult Social Care.

A large majority of the social care teams have now transferred the commissioning element of the service to the Care Navigation function; and a clear map of targeting the remaining services has been set out and will be completed over the next few weeks.

These changes have helped to establish a consistent approach in commissioning care and this positive impact has contributed to assisting in planning and forecasting as well as uplifting individual elements of care.

Closer working with the systems team (through the named resource) to identify any inconsistencies or problems is also in place and, where necessary, corrective action is taken.

Continuous monitoring of changes is also being undertaken to identify all areas of practice that could be improved/made consistent to reduce the number of changes/ queries to a minimum. This is reported and agreed through the Portfolio Review Board.

A principle area of work for the Core Systems team has been in relation to the recent award of the Homecare Framework contract. There are two phases to this work:

<u>Phase 1 – Service users staying with Provider</u>

This significant piece of work involves transferring service users with successful providers from old contract to new to facilitate new payment amounts along with all the reporting requirements identified as part of home care mobilisation. This process has provided a challenging opportunity to evaluate the robustness of the operating model put in place, and has been a success, delivering the necessary outcomes ahead of schedule. (Note -there is a small number of outstanding packages which are being addressed on an individual basis).

Discussions have now taken place with Care Navigation to put in place arrangements for the transfer of this function to them as BAU from 1st April 2018.

Phase 2 Service Users Changing Provider

This is being completed on a provider by provider basis. This work has been transferred to Care Navigation and it is anticipated it will be completed by the end of December 2018.

- Management of providers still using paper invoices.

On the last update it was recognised that there are a small number of providers that are still providing paper invoices rather than electronic invoices.

A project is currently underway on the further development of the Care Portal. This will focus on improving the effectiveness of the portal and to encourage providers to understand the benefits to them of utilising the full range of electronic opportunities it provides. This will include the electronic invoicing option. This will enable the matching of invoices electronically through more efficient, cost-effective and accurate mechanisms, which will not only reduce costs for the Council but will also improve provider's experience by helping to ensure that payments are made more quickly and accurately.

Consultations

N/A

Implications:

Financial

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

Risk management

None

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

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2018

Electoral Division affected:
(All Divisions);

Report of Decision taken under the Urgent Business Procedure

Contact for further information:
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Executive Summary

This report sets out, for the Committee's information, details of a decision that has been taken by the former Director of Governance, Finance and Public Services, under the County Council's procedure for dealing with matters of urgent business.

Recommendation

The Committee is asked to note the report.

Background and Advice

Consultation on Disqualification Criteria for Councillors and Mayors

This decision was taken on 7 December 2017.

On 18 September 2017, the Department for Communities and Local Government (DCLG) published a consultation on proposals to update the criteria disqualifying individuals from standing for, or holding office as, a local authority member, directly-elected mayor or member of the London Assembly, if they are subject to:

- The notification requirements set out in the Sexual Offences Act 2003 (commonly referred to as 'being on the sex offenders register').
- A civil injunction granted under section 1 of the Anti-social Behaviour, Crime and Policing Act 2014.
- A Criminal Behaviour Order made under section 22 of the Anti-social Behaviour, Crime and Policing Act 2014.

Any changes to the disqualification criteria would require changes to primary legislation, in particular the Local Government Act 1972, the Local Democracy, Economic Development and Construction Act 2009, and the Greater London Authority Act 1999. The proposed changes would not act retrospectively.

All members of the Audit, Risk and Governance Committee were consulted and were invited to comment on the proposals.

A response was subsequently submitted to the DCLG supporting the proposals.

Due to the closing date for consultation responses to be submitted, it was not possible to wait for the next meeting of the Committee on 29 January 2018. Therefore, the decision was taken under the County Council's Urgent Business Procedure.

Consultations

The Chair and Deputy Chair of the Audit, Risk and Governance Committee were consulted and supported the proposed action.

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
DCLG Consultation - Disqualification Criteria for Councillors and Mayors	18 September 2017	Paul Bond/(01772) 534676

Reason for inclusion in Part II, if appropriate

N/A