Lancashire County Council

Audit, Risk and Governance Committee

Monday, 29th October, 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 Special Meeting held on 28 August 2018** To be confirmed, and signed by the Chair.	(Pages 1 - 4)
4.	**The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2017/18**	(Pages 5 - 22)
5.	**External Audit - Audit Progress Report and Sector Update 2018/19**	(Pages 23 - 38)
6.	**Internal Audit Progress Report**	(Pages 39 - 52)
7.	**Corporate Risk and Opportunity Register Quarter 2**	(Pages 53 - 70)
8.	**Treasury Management Activity 2018/19**	(Pages 71 - 80)
9.	**General Data Protection Regulation Update**	(Pages 81 - 88)
10.	**Delays and Overspends on Major Projects, with Specific Reference to the Central Lancashire Strategic Site** Oral Report	

Lancashire County Council

11. Urgent Business

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

12. Date of Next Meeting

The next meeting of the Committee will be held on Monday 28 January 2019 at 2.00pm in Committee Room B – The Diamond Jubilee Room, County Hall, Preston.

13. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act 1972 as indicated against the heading to the item.

Part II (Not open to Press and Public)

14. Neighbourhood Wellbeing Grants (Pages 89 - 112)

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Tuesday, 28th August, 2018 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

J Berry	M Parkinson
C Edwards	J Shedwick
T Martin	A Vincent
E Nash	

1. Apologies

There were no apologies.

County Councillor Charles Edwards replaced County Councillor Philippa Williamson.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 30 July 2018

The Committee's attention was drawn to minute 16, page 7 (Update on the Review of Neighbourhood Wellbeing Initiative Grants), and the incorrect references to the 'External Auditor' which should have referred to the 'Independent Auditor'.

Resolved: - That, subject to the amendment set out above, the minutes of the meeting of the Audit, Risk and Governance Committee held on 30 July 2018 be confirmed and signed by the Chair.

4. External Audit - Audit Findings Report and Opinion for 2017/18 (Revised)

The Committee considered a report setting out a revised audit findings report and opinion for 2017/18, detailing the revised and final position following the original report which was considered and noted by the Committee at its meeting on 30 July 2018.

The Committee's attention was drawn to the changes in the revised report which included:

- An opinion and commentary on the accounting treatment of Lender Option Borrower Option (LOBO) loans which had been outstanding at the time of the original report.
- Value for Money arrangements and the improved position following the Ofsted inspection.
- The revision in the rating of the judgement and estimates from amber to green as a result of the resolution of the accounting treatment of LOBO loans.
- An updated audit opinion to take account of the overall changes.

The Committee discussed the adverse publicity which had been generated as a result of the County Council not being able to approve the statement of accounts by the statutory deadline and recognised the additional pressure which this had placed on the finance team.

As reported at the meeting of the Committee on 30 July, the delay had been as a result of the due process undertaken by the external auditor in relation to the County Council's treatment of LOBO loans. It was confirmed by the external auditor that there would be no negative outcome for the County Council when Public Sector Audit Appointments Limited (PSAA) published its report, in October, on those local authorities which had not achieved the statutory deadline of 31 July 2018.

It was discussed as to whether the County Council would approach PSAA to highlight its concerns and to clarify whether the external auditor might be subject to any penalty for the delay.

Resolved: - That the report, now presented, be noted.

5. Statement of Accounts 2017/18

The Committee considered a report setting out, for approval, the County Council's final statement of accounts for 2017/18.

At its meeting, on 30 July 2018, the Committee had been unable to approve the statement of accounts due to an unresolved issue around the accounting treatment of LOBO loans. As a result, the Committee had noted the report considered at that meeting. Following the resolution of the issue around the LOBO loans, the statement of accounts had been finalised and were now presented to the Committee for approval.

It was reported that, at the suggestion of the external auditor, two additional explanatory notes had been added to the statement of accounts to explain the nature of the loans and the use of Auditor Guidance Note (AG) 7 rather than AG8 in the accounting method for the LOBO loans.

It was confirmed that no further changes had been made to the statement of accounts since the meeting of the Committee on 30 July.

It was also reported that, whilst there had been no changes to the management representations approved by the Committee at its meeting on 30 July, in order to conclude the audit following approval of the statement of accounts, there was a requirement for the representations to be approved again and for a further letter, as set out at Appendix 'A', to be signed by the Chief Financial Officer and the Chair of the Committee.

Resolved: - That:

(i) The management representation letter set out at Appendix 'A' to the report, now presented, be signed by the Chief Financial Officer and the Chair of the Audit, Risk and Governance Committee prior to it being made available to the external auditor.

(ii) Approval be given to the 2017/18 Statement of Accounts, as set out at Appendix 'B' to the report, now presented, for Lancashire County Council and the Lancashire County Pension Fund.

6. Urgent Business

There was no urgent business to be considered.

7. Date of Next Meeting

It was noted that the next meeting of the Committee would take place at 2.00pm on Monday 29 October 2018 at County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston

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

Electoral Division affected:
None

The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2017/18
(Appendix 'A' refers)

Contact for further information:
Mike Thomas, 0161 214 6368, Director, Grant Thornton UK LLP,
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Executive Summary

The Annual Audit Letter summarises the outcome of our work in 2017/18. It includes the key messages in relation to the financial statements audit and audit opinion, and Value for Money conclusion.

Recommendation

The Audit, Risk and Governance Committee is asked to note the Annual Audit Letter for 2017/18 as set out at Appendix 'A'.

Background and Advice

Mike Thomas, Engagement Lead, will attend the committee meeting to present the report at Appendix 'A' and respond to questions.

Consultations

The report has been agreed with the county council's corporate management team.

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
None		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

Annual Audit Letter

Year ending 31 March 2018

Lancashire County Council and Pension Fund

30 August 2018

Appendix A

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Appendices

A Reports issued and fees

Your key Grant Thornton team members are:

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire County Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Risk and Governance Committee as those charged with governance in our Audit Findings Report on 28 August 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £34,670,000, which is 1.5% of the group's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £72,093,000, which is 1% of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 28 August 2018. We gave an unqualified opinion on the pension fund accounts of Lancashire Pension Fund on 30 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO and submitted this to them on 28 August 2018
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the limited assurance opinion given by its Head of Internal Audit. We therefore qualified our value for money conclusion in our audit report to the Council on 28 August 2018. .
Certificate	We have been unable to certify that we have completed the audit of the accounts of Lancashire County Council since 2013 due to an on-going police investigation. Once this investigation is concluded we will be able to assess the impact on our audit responsibilities and update our audit work in order to complete the audit certificates for the intervening years.

Executive Summary

Working with the Council

This has been the first full year of the accounts being closed down and audited by 31 July. This has increased pressure on both auditors and audited bodies in achieving these earlier deadlines. Despite these challenges we have delivered a number of successful outcomes with you::

- An efficient audit – despite one challenging and complex technical issue with broader implications for the Local Government sector we delivered an efficient audit with you in June-August, with the audit of both the group and the Pension Fund substantially completed ahead of the 31 July deadline.

- Improved financial processes – we worked with you to understand the issues relating to your capital accounting and the detail of the prior period adjustment , assisting in strengthening your processes for the future.

- Sharing our insight – we provided regular updates to the Audit, Risk and Governance committee. We also shared our thought leadership reports during the year on such topics as alternative delivery models; Brexit risk planning; General Data Protection Regulations, and commercialisation.

- Sharing the insight and thought leadership of other agencies such as the National Audit Office on topics such as financial sustainability, health and social care integration and social care demand pressures.

- Providing training – we provided your teams with training on financial accounts and annual reporting at our annual workshop in February 2018 ahead of the final accounts closedown period,

- Support outside of the audit – our insights and analytics team have worked with you on the development of CFO insights benchmarking software to assist with your identification of key areas to focus for your future savings programme.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff. In particular the finance staff who have provided great support on some challenging technical issues.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £34,670,000, which is 1.5**%** of the group's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £32,385 for senior officer remuneration equating to 1.75 % of expenditure on senior officer remuneration. .

We set a lower threshold of £1,730,000, above which we reported errors to the Audit, Risk and Governance Committee in our Audit Findings Report.

Pension Fund Materiality
For the audit of the Lancashire Pension Fund accounts, we determined materiality to be £72.093 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower threshold of £3,604,000, above which we reported errors to the Audit, Risk and Governance Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We also read the Annual Report of the Pension Fund and give our opinion stating that the report is consistent with our understanding of the financial statements and the information contained within the group financial statements.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition (Group and Pension Fund) Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	As part of our audit work we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and the Pension Fund . We determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • The culture and ethical frameworks of local authorities, including Lancashire County Council and Lancashire Pension Fund , mean that all forms of fraud are seen as unacceptable.	Our work concluded that the risk of 'improper revenue recognition' by the Council and Pension Fund was not a significant risk.
Management override of controls (Group and Pension Fund) Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration	As part of our audit work we have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; • evaluated the rationale for any changes in accounting policies or significant unusual transactions.	Our audit work on journals did not identified any issues in respect of management override of controls that we need to bring to members attention.

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Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment (Group audit only) The Council revalues its land and buildings on a three year cyclical basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration**.**	As part of our work we have: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • Discussed with the valuer about the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	Our audit work on the valuation of property, plant and equipment did not identified any significant issues. Our audit work confirmed that revaluations were carried out by an appropriate external expert and we satisfied ourselves that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2018. We did identify two areas for improvement regarding asset revaluation that we reported in our Audit Findings Report neither of which were material to the financial statements. :

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Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability (Group audit only) The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	As part of our work we have: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made; • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work on the valuation of the pension fund net liability did not identify any issues that we need to bring to members attention.

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Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of inverse floating Lender Option Borrower Option Loan. (Group audit only) The Council took out 2 inverse floating Lender Option Borrower Option (LOBO) loans for a total value of £50m in 2010. During the audit we identified the valuation and accounting for inverse floating LOBO loans as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our work included, but was not restricted to: • assessing management's processes and assumptions for identifying critical judgements; • gaining an understanding of the processes and the controls put in place by management to ensure that the loans were not materially misstated and evaluating the design of the associated controls • evaluating the competence, capabilities and objectivity of management experts used in the valuation of the loans • discussing with management the basis on which the valuation was carried out, including advice received from treasury management advisers; • evaluating and challenging the reasonableness of the critical judgements and significant assumptions used by management and their expert in valuing and accounting for the loans. Our work involved reviewing technical advice received by the Council from its Treasury Management Advisors, and by ourselves as your auditors through our in-house financial instruments technical experts. We also considered a broader range of technical advice from within the accounting sector regarding the accounting treatment of such complex financial instruments.	In its revised financial statements the Authority made a critical judgement regarding the accounting treatment and valuation of its inverse floating LOBO loans, determining the valuation of these loans during the year to be in accordance with International Accounting Standard (IAS) 39 Auditor Guidance note 7. We concluded that we obtained sufficient audit assurance to conclude that: • the basis of the accounting for inverse floating LOBO loans and the assumptions and processes used by management in determining the valuation were reasonable; and, • the valuation of the Authority's inverse floating LOBO loans disclosed in the financial statements are reasonable. We recommended that the Authority add some additional disclosures into the financial statements to clearly describe the critical judgements they had made in this respect. These were added in note 2 and the Technical Annex to the financial statements.

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Audit of the Accounts

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The valuation of Level 3 investments is incorrect (Pension Fund) Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	As part of our work we have; • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • considered the competence, expertise and objectivity of any management experts used; • reviewed the qualifications of the fund managers and custodian as experts to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2017 with reference to known movements in the intervening period.	Our audit work on the valuation of Level 3 investments did not identify any issues that we need to bring to members attention.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 28 August 2018. .

Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

The areas of greatest discussion included the prior period adjustment relating to capital accounting matters and the accounting treatment and valuation of inverse floating LOBO loans. The Finance team provided significant support and assistance in helping us conclude our audit in these areas.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit, Risk and Governance Committee on 28 August 2018.

In addition to the key audit risks reported above, we had discussions with management regarding the Council’s change in its Minimum Revenue Provision Policy which released an additional £13.2m to revenue; the misclassification of Disabled Facilities Grant expenditure of £12.6m; a prior period adjustment relating Property, Plant and Equipment which impacted a large number of notes in the accounts and is explained at Note 4; and a significant amendment to the Pension Fund account to reflect the fact that £137m of up front payments by admitted bodies should have been accounted for as income.

Annual Governance Statement and Narrative Report

We are required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council’s Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 28 August 2018.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Lancashire Pension Fund on 30 July 2018.

We also reported the key issues from our audit of the pension fund accounts to the Council’s Audit, Risk and Governance Committee on 30 July 2018.

In addition to the key audit risks reported above, we identified one material adjustment to the Pension Fund accounts that resulted in a £137 million adjustment to the Fund’s reported financial position.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not received any objections to the Council’s accounts for 2017-18 and have not therefore had to exercise our statutory powers.

Certificate of closure of the audit

We are unable to certify the conclusion of the audit. This is because we cannot formally conclude the audit of the accounts from 2012/13 onwards until we have completed our consideration of matters arising from 2012/13.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

- except for the limited assurance opinion given by the Head of Internal Audit , the Council had proper arrangements in all significant respects.

We therefore gave a qualified 'except for' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability The Council is already committed to the delivery of a significant savings programme of £135 million between 2017/18 and 2021/22. The 2017/18 budget required £57.1 million funding from reserves to set a balanced budget. The 2018/19 budget included planned savings of £55 million but still required a further £42.0 million from reserves to balance the budget. The Council's MTFS 2018/19 to 2021/22, updated in February 2018, showed a cumulative funding gap between 2019/20 and 2021/22 of £330.6 million. The need to deliver the agreed saving and close the significant funding gap in the MTFS, represents a significant challenge for the Council.	In forming our conclusion we have reviewed - the Council's medium term financial strategy, - Analysed the detailed budget reports for 2018-19; - Reviewed the councils historical performance as regards delivering savings; - Analysed the current and predicted reserves position in the light of the challenges facing the Council; - Considered the wider financial environment impacting the Council's financial position; - Reviewed the processes and arrangements put in place for the development, agreement, management, monitoring and delivery of the savings programme; - Considered the governance arrangements supporting the delivery of the operational plan. In addition we have subjected the Council's position to a consistency review process within Grant Thornton to assess the comparability with other similar councils.	We concluded that during 2017-18 the Council continued to develop a range of responses to its medium term financial challenges despite significant change of senior personnel. In recent years and for 2018-19 this has included the planned use of significant amounts of reserves to offset any shortfall in the delivery of savings plans. This is not sustainable and the Council recognises this even though it currently has identified that it has sufficient reserves to meet its obligations up until 2019/20 and part of 2020/21. The Council has put in place changes from early 2018 with the introduction of a new interim Chief Executive / Director of Resources; new members of the senior management team and a revised operational plan. These changes are crucial to delivering medium term financial and operational sustainability. Whilst changes are in train, it remains too early to judge their success as detailed savings options have yet to be put before members. The plans being developed and the pace with which they are actioned will be crucial to the future success of the organisation. The Council's financial position remains challenging and continuing reliance on reserves is seen as unsustainable. There is a pressing need for a more transformational savings programme to be delivered during 2018-19 and beyond. There will be some difficult decisions to be made during 2018-19 to ensure this happens.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in November 2015 which rated these as 'inadequate'. The Council has been subject to regular follow up reviews during 2017/18. A re-inspection was undertaken in May and June 2018. The result from this re-inspection was received on 17 August 2018. A further inspection of the Council's Special Educational Needs (SEND) services was undertaken in 2017 and reported in early 2018. This highlighted some significant weakness and improvement issues for the Council to consider.	Ofsted recently returned to undertake their re-inspection. We have monitored this situation during the year. The Council received its re-inspection report on 17 August 2018 from Ofsted which has improved its judgement from 'inadequate' to 'requiring improvement'. This improved position is reflected in our final value for money conclusion.	Our VFM conclusion originally contained an 'except for' conclusion for the Children's Services Inspection. Our conclusion covers the period up to 31 March 2018. However, the Council had its Ofsted re-inspection in early June with the review including practices within Children's Services relating to children in need of help and protection, children looked after and care leavers during 2017-18 and up to the end of May 2018. On the basis that the practices reviewed relate to 2017-18 we amended our conclusion to reflect the more positive inspection outcome and removed the 'except for ' conclusion accordingly.
Internal control The Council's Head of Internal Audit (HIA) opinion for 2016/17 provided limited assurance on the Council's overall system of internal control because the plan did not provide for coverage of the Council's full internal control system. The Internal Audit plan for 2017/18 was approved by the Audit and Governance Committee in June 2017 and highlighted there may be areas where management would not be able to provide assurance that risks are being adequately and effectively controlled and this would inform the HIA opinion for 2017/18.	We have reviewed the work of internal audit during 2017-18 including the outcome of individual reports in risk areas and the conclusion reached by the Head of Internal Audit in her annual opinion to the Council. In 2017-18 The Head of Internal Audit reported in her annual report to the Audit and Governance Committee in April 2018. This concluded ; ' I can provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control'.' She goes on to say that there were a number of areas of the Council's business where management had identified the need to continue to make service and control improvements and these were therefore excluded from the scope of audit work for the year as they would not have added value Some of these are significant and have therefore also affected the assurance I am able to provide overall but the plans being implemented by managers across the organisation are building the foundations for better control. It is still too early to see the positive impact of this improvement work but evidence is expected in future years.'	On the basis of the limited assurance given by the Head of Internal Audit and the continuing limitations as to audit activity during 2017-18 we have continued with our ' except for' opinion in this area.

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A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan - Group	18 April 2018
Audit Findings Report – Group	28 August 2018
Audit Plan – Pension Fund	5 March 2018
Audit Findings Report – Pension Fund	19 July 2018
Annual Audit Letter – Joint Report	30 August 2018

Fees for non-audit services

Service	Fees £
Audit related services	
- IAS 19 Assurance to other auditors (Pension Fund)	1,737
- Agreed upon procedures report – Teachers' pensions return	4,200
Non-Audit related services	
• - CFO Insights	9,000

Fees

	Planned £	Actual fees £
Statutory group audit	112,995	TBC
Audit of Pension Fund	34,169	34,169
Total fees	**147,164**	**TBC**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)
Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the groups policy on the allotment of non-audit work to your auditor.

grantthornton.co.uk

Agenda Item 5

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

Electoral Division affected:
None;

External Audit - Audit Progress Report and Sector Update 2018/19
(Appendix 'A' refers)

Contact for further information:
Mike Thomas, 0161 214 6368, Director, Grant Thornton UK LLP,
mike.thomas@uk.gt.com

Executive Summary

The External Audit - Audit Progress Report and Sector Update 2018/19 is set out at Appendix 'A' for the committee's consideration.

Recommendation

The Audit, Risk and Governance Committee is asked to consider the External Audit - Audit Progress Report and Sector Update 2018/19 set out at Appendix 'A'.

Background and Advice

This report provides an update including our proposed timescales for the audit of the 2018/19 statement of accounts and the Value for Money conclusion. The outcome of the work will be reported to the Audit, Risk and Governance Committee's meeting in July 2019. The report also provides additional information, on sector developments, to members of the committee as those charged with governance for the county council.

Mike Thomas, Engagement Lead, will attend the meeting to present the report at Appendix 'A' and respond to questions.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Lancashire County Council

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

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Audit Progress Report and Sector Update

Lancashire County Council
Year ending 31 March 2019

October 2018

Appendix A

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Sector Update	6
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Introduction

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This paper provides the Audit, Risk and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit, Risk and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grant-thornton.co.uk ..

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

Progress at 8 October 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 28 August 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- A qualified (except for) value for money conclusion on the Council's arrangements , efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 except for the closure certificate. We cannot formally conclude the audit of accounts from 2012/13 onwards until a police investigation is finalised and we have had the opportunity to consider the outcome and assess the implications for our audit of the Council.

Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

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2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We have been asked by the Council to certify the Council's Teachers Pension Return 2017/18 in accordance with the procedures agreed with the Teachers Pension Agency. This certification work is in progress and will be concluded by the 30 November 2018 deadline.

Meetings

We have regular liaison meetings with Finance Officers and discussions with finance staff regarding emerging developments to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit, Risk and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit, Risk and Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

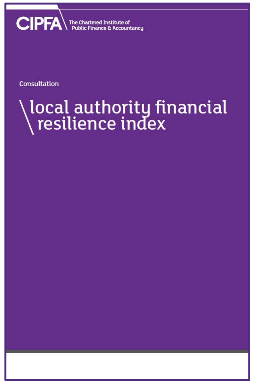
- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.



MHCLG – Business rate pilots

The Secretary of State invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would ‘pool’ their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

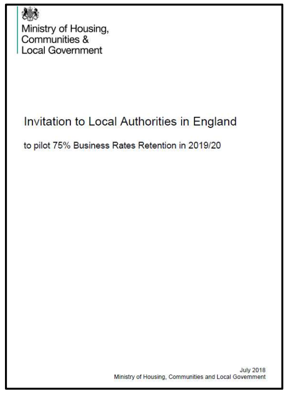
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation was addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities’ proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots had to be received the MHCLG by midnight on Tuesday 25th September 2018.


Ministry of Housing, Communities & Local Government

Invitation to Local Authorities in England

to pilot 75% Business Rates Retention in 2019/20

July 2018
Ministry of Housing, Communities and Local Government

Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

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Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

National Audit Office – The health and social care interface

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The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

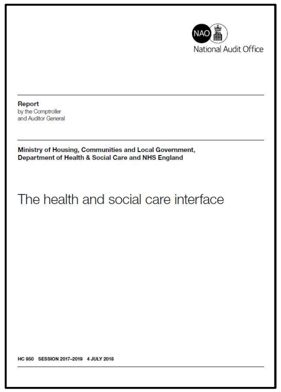
Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing. person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
https://www.nao.org.uk/report/the-health-and-social-care-interface/


National Audit Office

Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities and Local Government,
Department of Health & Social Care and NHS England

The health and social care interface

HC 950 SESSION 2017–2019 4 JULY 2018

The Vibrant Economy Index a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.grantthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy.**

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- *Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)*
- *Explore the app and take the quiz*
- *Go to the Vibrant Ideas section to share your picture and story or idea*

Supply Chain Insights tool helps support supply chain assurance in public services

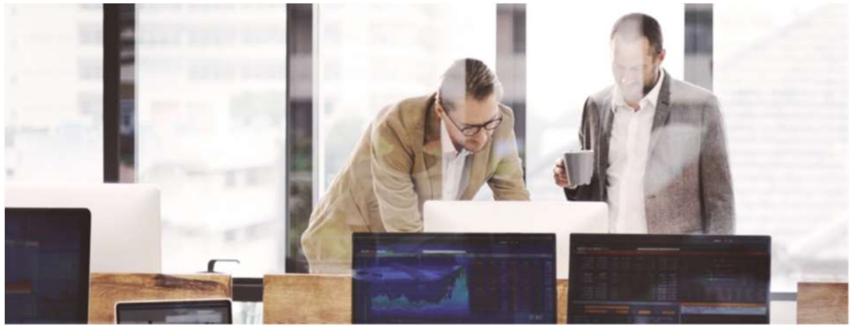
Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



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The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

National Audit Office link

https://www.nao.org.uk/report/the-health-and-social-care-interface/

Ministry of Housing, Communities and Local Government links

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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

Electoral Division affected:
(All Divisions);

Internal Audit Progress Report
(Appendices 'A' and 'B' 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 30 September 2018.

Recommendation

The Audit, Risk and Governance Committee is asked to consider the report.

Background and Advice

This report sets out for the committee the internal audit work performed under the audit plan for 2018/19 approved in April 2018.

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 30 September 2018 under the audit plan for 2018/19.

Appendix 'B' sets out the audit assurance levels and classification of residual risks used by the Internal Audit Service.

Consultations

Each of the directors and heads of service who have sponsored the audit work reported here has been consulted.

Implications:

This item has the following implications, as indicated:

Lancashire County Council

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
None		

Reason for inclusion in Part II, if appropriate

N/A

Matters arising from internal audit work completed during the period to 30 September 2018

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 highlights the issues arising from the work undertaken during the period to 30 September 2018 by the Internal Audit Service under the audit plan for 2018/19.

1.2 Managers are now asked at the end of each quarter to confirm that all remedial actions arising from audit work have been completed by their due date, or else are incomplete or superseded. These statistics are also reported here.

2 Key issues

2.1 Although it is too soon to highlight any broad issues emerging from completed audit work, there will be more work to report to the committee's next meeting.

2.2 Audit work is progressing well and a number of audits are reported below. Risk and control frameworks are being developed with service managers and more detailed testing is planned for the second part of the year in a number of cases, and will be reported when all work is complete. More information is provided at section 3 below.

2.3 The committee will remain well aware that the council is currently addressing significant challenges. At this point last year work was under way to identify savings of approximately £67 million in 2018/19 and a gap remains in the budget for 2019/20 of £60.6 million. Although reserves are still available to bridge that gap, the £64.4 million remaining in available reserves will not fully support the projected difference between income and expenditure of £110.7 million in 2020/21.

2.4 All services are now being challenged to achieve savings of £135.3 million by 2022/23 and the interim chief executive and director of resources and her new Corporate Management Team are strongly focussed on achieving the necessary savings whilst also working to improve the council's framework of control.

2.5 Very clear evidence of the improvements that have already been achieved has been provided by Ofsted's recent assessment that the council's children's social care services have improved and, whilst they still require improvement, are no longer inadequate. Work is continuing across these services and also, with the council's partners in the NHS, to improve services for children with special educational needs and disabilities.

2.6 At this mid-year point, the head of internal audit is working with the interim chief executive and director of resources, and the director of finance, to reassess the council's framework of internal control and ensure that the audit plan will provide the assurance the committee and Council need for the current and future years.

3 Progress against the internal audit plan

3.1 Excluding follow-up work and ad hoc grants, there are 90 audits on the audit plan for the year (a small number of which were carried into this year from last). These have progressed as follows, which is largely as would be expected at this point in the year.

Stage of audit process	Number	Percentage
Complete and reported to committee	16	17.8%
At draft report stage	7	7.8%
Progressing	29	32.2%
Not yet started	38	42.2%
Total number of audits	**90**	**100.0%**

3.2 Summaries of the findings of the 12 audits completed and reported during the last quarter are reported below. The results of our work on four audits carried forward from 2017/18 were reported in July 2018.

3.3 Draft reports are currently being prepared and discussed with managers on:

- Communication with staff across the council
- Medication practices across Disability Services
- Supervision and support to front-line social workers in the Public Health Patient Safety and Safeguarding team
- Core systems for managing capital projects – PPMS, PAMS and HAMS
- Contract monitoring: Community Services highways line-marking
- Operation of the 'Step up to Social Work' contract
- Information management: information storage and retention

3.4 We have also confirmed that the actions agreed to address external requests for information have been addressed.

4 The assurance available from completed audit work

4.1 A brief summary of the assurance provided for each of the audits relating to 2018/19 and completed to final report stage by 30 September 2018 is provided in the table below.

Control area	Assurance
Service delivery: Adult Services and Health & Wellbeing	
Supervision and support to front-line in-house day services care providers	Moderate
Contract monitoring: reablement service	Moderate
Contract monitoring: crisis support service	Moderate
Contract monitoring: sexual health service	Substantial
Payroll claims and recovery of over/ underpayments to staff in Disability Services	Moderate

Control area	Assurance
Service delivery: Education & Children's Services	
External residential placements process	Moderate
Contract monitoring: external residential placements	Moderate
Schools' Financial Value Standard (SFVS) self-assessments (reported in July 2018)	Moderate
Service delivery: Growth, Environment, Transport & Community Services	
Lancashire Renewables: governance and decision making	Moderate
Lancashire Renewables: expenditure	Substantial
Contract monitoring: waste landfill (reported in July 2018)	Substantial
Service support	
Recovery of costs/ available income from partner organisations (reported in July 2018)	Limited
Procurement of the new corporate banking contract	Substantial (Controls design only)
Business processes	
Oversight of payroll payments	Limited
Information management: compliance with the new General Data Protection Regulations	Substantial
Financial processes: VAT processing (reported in July 2018)	Substantial

4.2 The Lancashire Pension Fund is 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 pension fund. Deloitte disclaims any liability to the council for any reliance it may place on this work but has agreed that its conclusions may be reported to the Audit, Risk and Governance Committee.

4.3 Deloitte has completed one of the last two planned audits relating to 2017/18, on the second phase of oversight of business and transformation change, and also additional work on the organisation's readiness for the introduction of the General Data Protection Regulations. One planned audit on investment operations has not yet been completed but is being progressed.

Control area	Assurance
Lancashire Pension Fund	
Oversight of business transformation change (Phase II)	Effective with scope for improvement
GDPR readiness assessment	Effective with scope for improvement

4.4 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 'B'. Deloitte's classification "effective with scope for improvement" might reasonably be regarded as similar to the "moderate" assurance provided by the Internal Audit Service.

Grant certification and testing

4.5 In addition to providing assurance to the council some audit work is required by various central government departments, to provide them with assurance over the council's use of grant funding and attainment of funding conditions.

4.6 Work has been completed to provide assurance to the Department for Transport that the conditions set for the council's use of funds granted in 2017/18 in relation to local transport capital funding and highways maintenance have been met. (These amount to £38.820 million in total.)

4.7 Continuous audit work is required by the Ministry for Housing, Communities and Local Government's Troubled Families Unit to certify 10% of the outcomes being claimed by the council under the Troubled Families programme. The numbers are increasing and it is expected that approximately 700 outcome claims will be audited for the Troubled Families Unit during the current year.

5 Issues arising from completed audit work

5.1 The matters arising from each of the completed audits are set out in the narrative below.

Supervision and support to front-line in-house day services care providers (Moderate assurance)

5.2 A number of areas of good practice were identified in the arrangements we examined. In particular, as care support workers and their team managers work in close proximity on a daily basis, staff receive continuous informal supervision and support, and this is complemented by other regular informal supervision and support including team meetings, peer supervision, and 'circles of support' that reflect on operational practice.

5.3 All formal supervision meetings are documented, and whilst the standard was variable, there were some good examples of thorough supervision that included: reflecting on and reviewing practice and performance; discussion of persons supported; setting priorities and objectives in accordance with service objectives; identifying training and continuing development needs; and ensuring that staff are working within professional codes of conduct.

5.4 However supervision meetings are not always undertaken as regularly as the service's policy stipulates, and checks by middle managers to monitor the quality and frequency of supervision are inconsistently applied. The current supervision policy is also out of date and would benefit from being condensed or simplified.

Contract monitoring: reablement service (Moderate assurance)

5.5 Reablement support is available at all times and aims to enable a service user to regain their skills and capabilities quickly after an illness, whilst allowing them sufficient time to regain their independence and prevent the need for ongoing social care support. The council has contracts in place with three service providers, with an annual value of approximately £3.2 million.

5.6 Whilst there is no formally defined contract management strategy, contract monitoring ensures that providers meet their contractual requirements. Work has begun to draw up a strategy which will ensure that roles and responsibilities are more clearly defined, and in particular that the Contract Management team, Commissioning, Care Navigation and Finance work collaboratively to avoid duplication or omissions in managing the contracts. A monitoring toolkit will be developed for the Contract Management team.

5.7 Contract review meetings are held in accordance with the service specification but are not always attended by representatives from the operational Reablement or Care Navigation teams which will be required in future to ensure that representatives attend to ensure that any issues are understood and addressed.

5.8 Actual service provision by two providers has fallen short of the hours commissioned from them. A review of the actual hours provided relative to the contracted hours will reassess the hours that will be commissioned and consider whether a process is required to carry forward unused support hours.

Contract monitoring: crisis support service (Moderate assurance)

5.9 Crisis support is available at all times to prevent service users' unnecessary acute hospital admission or premature admission to residential care, to support their timely discharge from hospital, and to provide urgent care and support in crisis situations. There are contracts in place with three service providers, with an annual value of approximately £1.5 million.

5.10 The Crisis Service's Contract Management team operates a contract management plan which sets out what information is required from the three providers and when. The Commissioning team is also involved and there has been a consequent lack of clarity regarding the two teams' roles. Work is now beginning to ensure roles and responsibilities are more clearly defined, for example in monitoring providers' performance against key performance indicators.

5.11 Providers are not currently consistently submitting data on service user outcomes (a key performance indicator) and the council is therefore missing key intelligence that would allow officers to determine the overall effectiveness of crisis provision.

5.12 We identified an error in the contract monitoring spreadsheet which resulted in the value of wastage hours being under-reported. This information is fundamental in evaluating the number of hours required and to inform future commissioning decisions. Despite wastage hours being reported, additional hours have been purchased to cover potential shortfalls due to seasonal pressures, although these have been funded either by the Better Care Fund or the relevant Clinical Commissioning Group.

Contract monitoring: sexual health service (Substantial assurance)

5.13 Lancashire County Council and the Director of Public Health are statutorily responsible for providing sexual health services including testing and treating for sexually transmitted infections, some contraception, and sexual health promotion and disease prevention. The Department of Health funds this work and in 2017/18 the grant amounted to £7.84 million.

5.14 Two services are commissioned in Lancashire: an 'all age' service provided by Blackpool Teaching Hospitals NHS Foundation Trust, and a 'young people's' service provided by Lancashire Care NHS Foundation Trust. These providers support delivery of the sexual health Public Health Outcome Framework measures published by the Department of Health.

5.15 Formal contract review meetings and the use of a set agenda ensure that the service specification is adhered to and service outcomes achieved. Monitoring these contracts requires collaboration between the Health, Equity, Welfare and Partnerships, Patient Safety and Safeguarding, and Financial Management teams. Work has begun to share and transfer knowledge between the teams as some of the tasks transfer between them.

5.16 There is a sound system of internal control which is adequately designed to ensure that the open access integrated sexual health contracts are monitored effectively, and controls are being consistently applied.

Payroll claims and recovery of over/ underpayments to staff in Disability Services (Moderate assurance)

5.17 Each month more than 60 managers in the Domiciliary and Short Break Services approve approximately 3,000 individual claims for payment. Around 10% of managers in the services approve over 100 claims per month.

5.18 Payment claims are input, approved and processed effectively using Oracle self-service functions and, whilst the input and approval aspects of the claims process can be both time consuming and resource intensive, the overall process is not adversely affected and claims are approved in line with corporate payroll processing deadlines. Procedures are in place to recover or reimburse any over- or under-payments identified.

5.19 Action will be taken to strengthen controls in some areas, including the provision of training and support, referral, monitoring and reporting of HR, ICT and Payroll issues, and the adaptation and introduction of processes to improve efficiency across the Disability Service.

External residential placements process (Moderate assurance)

5.20 The council has a statutory duty under the Children Act, 1989 to provide residential care placements to meet the needs of children and young people in its care. Placements are in council-run care homes or are procured from external providers. In August 2018 170 'children looked after' were in external agency residential care at an annual cost of over £41 million.

5.21 The director of children's services has taken action to meet placement needs cost-effectively and now chairs weekly placement review meetings with senior managers. Local service teams are required to review placements at 'track and challenge' meetings and the social care business improvement partner has worked with teams across the county to implement more robust review processes. The team in the East has implemented these processes and has identified a potential annualised saving of £2.94 million, and the same approach will be rolled out in the Central team.

5.22 Ofsted's recent re-inspection acknowledged that locality-based management structures can support closer oversight of practice. However senior managers are aware that this has led to inconsistency across the three areas where, for example, review processes and resource panel arrangements differ. Procedures and guidelines have been distributed through team and management meetings but have not yet been included in the Social Care Procedures Manual.

5.23 The Access to Resources team makes placements based on social workers' referrals, but referral decisions are not always recorded in the Liquidlogic

Children's System (LCS). There is some evidence of review and approval by managers but this is not always evidence on LCS. Placement plans are produced but are not always agreed by the stakeholders in each case. Delays in submitting referrals to the Access to Resources team makes sourcing placements more difficult but, once informed, the team takes prompt procurement action. Individual placement agreements establish contracts between provider and council but most are unsigned.

5.24 At the time of our work, the council owed providers £563,000 on 136 provider invoices and credit notes, primarily because invoice details do not match individual provider agreements or do not show a care plan line item for a variety of reasons, including cases that have bypassed the Access to Resources team.

Contract monitoring: external residential placements (Moderate assurance)

5.25 Overall, contract management of external residential placements is generally well managed by the Access to Resources team, although policy is not consistently or fully complied with by the social care teams. The Access to Resources team maintains process guidance and a comprehensive spreadsheet to manage placements. An external provider framework is in place and providers charged in line with it. The Access to Resources team conducts annual provider inspections but had completed only 18 at the time of our work, because a visiting officer had been only recently appointed. The team acknowledges that the number of inspections is not yet sufficient and they are reactive rather than proactive, and so is developing an inspection programme to cover all providers annually. They also obtain assurance over providers from Regulation 44 and end of placement reports, although these are not always provided promptly. The service's managers have agreed to collate and evaluate all sources of information to obtain an overview of provider performance that will support the inspection programme.

5.26 Early in 2018 the Access to Resources team introduced a process for reviewing placement adequacy but this is not yet being followed: managers have agreed that this will be done in future. However we confirmed that concerns raised about providers are logged and investigated, and action has been taken where necessary.

Lancashire Renewables Ltd: governance and decision making
(Moderate assurance)

5.27 Lancashire Renewables Limited (LRL) operates waste treatment facilities at Farington and Thornton. Since the termination of the private finance initiative contract in 2014 it has been jointly owned by Lancashire County Council (the major shareholder) and Blackpool Council.

5.28 Articles of association and a service level agreement (SLA) between the company and the two councils set out the company's governance arrangements including board and management structures, business planning, decision making, reporting and risk and performance management. The company's board is chaired by the deputy leader of the county council and includes five county councillors and one member of Blackpool Council. The director of community services acts as its chief executive. The board meets quarterly, supported by regular reports from the chief executive, general manager and finance officer on business progress, value for money and financial assessments.

5.29 Operational practice has varied from that stipulated in the SLA in some respects. The SLA, and good practice, require the company to publish an annual business plan setting out operational strategies and performance targets but, while managers submit a comprehensive report to the board on performance against key targets, no business plan is yet in place. The chief executive will develop a business plan covering the company's objectives. The chair has reported to the Cabinet Committee on Performance and Improvement annually rather than quarterly as stipulated by the SLA, so the committee's requirements for reports will be clarified.

5.30 Similarly, LRL does not yet maintain and manage a register of its own strategic and operational risks as required both by the SLA and good practice. The risks to council from its ownership of the company are reported in the Waste Management Service risk register, but the company's own risks are not recorded. A register will therefore now be developed following the council's approach, and will be regularly monitored.

Lancashire Renewables Ltd: expenditure (Substantial assurance)

5.31 In 2017/18 LRL raised 2,646 orders worth £25.8 million and from April to June 2018/19 it raised 700 orders worth £5.3 million. We assessed the adequacy and effectiveness of controls to ensure this spending is authorised and legitimate. Our work did not address how LRL awards contracts and establishes preferred suppliers whilst the board is working to align its processes with the council's contract and procurement rules.

5.32 We confirmed that there are effective and appropriate processes in place to authorise orders, receipt goods and services, validate invoices and make payments. We also confirmed that purchases are in line with expectations for a business of this kind. The ordering process is documented and shared in staff training, and is available on the intranet. Orders are raised and approved on the CODA financial system, with appropriate separation of duties imposed through access permissions.

Procurement of the new corporate banking contract
(Substantial assurance)

5.33 The council's contract with NatWest Bank to process financial transactions expires on 31 March 2019 and it is intended that a new five-year contract (with an option to extend to 10 years) will be awarded in December 2018, at an approximate annual cost of £72,000 per year.

5.34 The Cabinet has given approval to proceed with the procurement and the process is being managed by the Procurement Service to ensure compliance with legislation and the council's policies: progress is reported to the chief executive and the director of finance. Key documents, including the contract specification, are being drafted. Some controls are dependent on whether a new provider wins the contract, and cannot be fully formulated until the contract has been awarded but the need for a transition programme and system testing is recognised by the Exchequer Service.

5.35 The Internal Audit Service has provided assurance over the adequacy of the procurement process controls' design, but not their effectiveness in practice at this stage.

Information management: compliance with the new General Data Protection Regulations (Substantial assurance)

5.36 The General Data Protection Regulations (GDPR) impose strict new rules on how the council protects, controls and processes personal data and introduces severe financial penalties for breaches. The council took effective action to prepare for the introduction of GDPR in May 2018 and a new information governance framework records its strategy, policies, roles and responsibilities as well as a number of improvement actions.

5.37 All relevant policies, privacy notices and consent procedures were updated, and the new requirements were communicated to officers and members through staff notices, mandatory online training and team briefings. Information audits were carried out to identify and record the personal data the council processes, and the legal basis for this. Contracts with external data processors are being updated to reflect their new responsibilities. The Senior Information Risk Owner and Data Protection Officer are members of the Corporate Information Governance Group (CIGG), which oversees the ways in which the council controls information, and the ways in which information breaches are investigated.

5.38 The number of subject access requests and enquiries received increased significantly prior to GDPR implementation and the Information Governance Team's workload was further increased by a number of security incidents. Resources are being brought into the team to address this and compliance with statutory deadlines has recently improved significantly.

Information management: follow-up of actions to address requests for information

5.39 Our audit in 2017/18 of the council's compliance with the Freedom of Information Act and provision of personal data under subject access requests considered the adequacy and effectiveness of arrangements for managing the receipt of requests, and processing and disclosure of information in accordance with statutory requirements. We concluded that there was a generally sound system of internal control and controls were generally being applied consistently, but five actions were agreed to address some weaknesses: three have now been implemented, one is ongoing and one has been superseded.

5.40 As agreed, shorter deadlines are now given to services to respond to requests for information. The Norwel system is now used to produce management information on a monthly basis, and this information is then used to monitor and allocate workload in order to improve overall case management.

5.41 Work is still ongoing to identify, investigate and close cases recorded as outstanding on Norwel; but the action agreed to ensure that responses are handled more quickly is no longer required because this has been achieved through the more effectively operation of existing controls.

6 Managers' progress in implementing actions

6.1 As noted in July, the Cabinet Committee on Performance Improvement (CCPI) has adopted as a performance indicator on the corporate performance dashboard the 'proportion of the actions identified through audit work that were completed within the agreed timescale in the period'. The service has therefore begun to collate managers' assessments of whether action has been completed by the due date as that date passes.

6.2 At the end of the current year the previous years' completed actions will be removed from this analysis but all will continue to be reported to the Audit, Risk and Governance Committee during this year so that the figures reported each quarter are comparable. As at the end of June 2018, 227 actions had been agreed during 2016/17 and 2017/18 and were due for completion. Over the last quarter a further 43 actions have become due and the status of all 270 is reported below.

Numbers of actions agreed following audit work during 2016/17 and 2017/18		**Total**	**Risk rating**		
			High	Medium	Low
Complete	70%	190	17	95	78
Superseded	14%	38	7	9	12
Incomplete	8%	22	4	13	5
Awaiting responses re status	8%	20	0	9	11
Total	**100%**	**270**	**28**	**136**	**106**

6.3 Where actions have been superseded, it is often because some alternative action is being taken: we have not logged and are not monitoring the alternative action but understand that service are actively addressing the issues raised. However in some cases a service, system or process has changed to a point where the action is no longer relevant.

7 Amendments to the audit plan

7.1 The Internal Audit Service normally aims to follow up the action plans agreed by managers to address the risks identified through the audit process, to confirm that action has been taken. The plan for the year therefore includes an allocation of time for this work. However managers across the council are currently focussed on ensuring that actions are implemented and on reporting this through both the Audit, Risk and Governance Committee and Cabinet Committee on Performance Improvement. It is therefore proposed that, for this year only, that time is released to undertake additional audit work on other areas. For 2018/19, except where work has already been undertaken, no additional assurance will be sought that action has been taken.

7.2 As noted above at paragraph 2.6, the head of internal audit, interim chief executive and director of resources, and the director of finance, are working with the executive directors and other senior managers to reassess the council's framework of internal control and the audit plan for the year.

7.3 At this point there have otherwise been only very minor amendments to the plan. The work on public service vehicle operator licenses (Growth, Environment, Transport & Community Services service delivery controls) will be refocussed to address the council's compliance with heavy goods vehicle operator licence conditions instead.

Audit assurance levels and classification of residual risk

The definitions of the assurance given by internal audit work, and the categories of residual risk used to prioritise any actions arising from audit work are set out below.

Assurance levels

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we refer in our reports to the assurance applicable to the scope of the work we have undertaken.

Substantial assurance: the framework of control is adequately designed and/or effectively operated.

Moderate assurance: the framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

Residual risks

Extreme residual risk: critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant 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: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, 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: 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: matters that individually have no major impact on achieving the service's objectives, 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.

Agenda Item 7

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

Electoral Division affected:
(All Divisions);

Corporate Risk and Opportunity Register Quarter 2
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

This report provides an updated (Quarter 2) Risk and Opportunity Register for the committee to consider and comment upon.

Recommendation

The Audit, Risk and Governance Committee is asked to note the updated Corporate Risk and Opportunity Register as set out at Appendix 'A' and comment as appropriate.

Background and Advice

Following the corporate approach to reporting on risk and opportunity, the quarter 2 Risk and Opportunity Register was reported to Corporate Management Team following a review of the register. The register has now been updated to reflect changing priorities and the updated budget position. The register was presented to the Cabinet Committee on Performance Improvement on 4 October 2018. An updated Corporate Risk and Opportunity Register is attached at Appendix 'A'.

For this quarter, there has been one addition to the register CR12 – Unlawful disclosure of personal or commercial data caused by a deliberate or accidental or technical breach, resulting in a risk to the rights and freedoms of the data subject or the intellectual property of the county council. From April to June 2018, there were 98 data incidents, of which 7 were reported to the Information Commissioner's Office. Allowing for mitigating actions this risk has a residual score of 12. Further mitigating actions are currently being developed, including a new training course for staff who have been responsible for such breaches.

Lancashire County Council

Risk Identification Number (RIN)	Risk Description
CR1	Delivering the Operational Plan to ensure a strong and sustainable County Council • Establishing a strong and visible leadership team • Embed a focus on service delivery to secure a better service at a lower cost • Develop a sustainable financial strategy Allowing for mitigating actions the residual score is 16.
CR2	Protect and safeguard children. Further mitigating actions added. Residual risk score remains unchanged.
CR3	Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care. Following the Ofsted inspection the residual risk score has been reduced to 12.
CR4	Recruit and retain experienced staff within Children's Services. Further mitigation actions added. Residual risk remains unchanged.
CR5	Managing our data well and producing effective management information. Allowing for mitigating actions the residual score is 12.
CR6	Implement/maintain core systems that support the organisation, deliver transformational change and deliver efficiencies, cost reductions and produce effective management information that supports management decision making. Allowing for mitigating actions the residual score is 12.
CR7	Delivering major projects/schemes on time and within budget. Allowing for mitigating actions the residual score is 12.
CR8	Delivering a statutory service for children and young people with special educational needs and/or disabilities. Allowing for further mitigating actions the residual score remains at 16.
CR9	Discharge of patients from hospital into their own home or enablement/short term care in a safe and timely manner. Allowing for mitigating actions residual score remains at 20.
CR10	Adult social care provision is adequate and responsive to meet current and future demand. Allowing for further mitigating actions the residual score remains at 12.
CR11	Supporting disadvantaged families to fulfil their potential (Troubled Families Programme). Allowing for further mitigating actions the residual score remains at 16.
CR12	Unlawful disclosure of personal or commercial data caused by a deliberate or accidental or technical breach resulting **in** a risk to the rights and freedoms of the data subject or the intellectual property of the county council. Allowing for mitigating actions the residual risk score is 12.
CO1	Delivering the Operational Plan to ensure a strong and sustainable County Council • Delivering growth and prosperity for the whole of Lancashire

	This opportunity has a score of 16.
CO2	Apprenticeship Levy and Apprentice % in Public Sector. This has an opportunity score of 15.
CO3	Develop and implement improved recruitment and retention practices to address increasing challenges. This has an opportunity score of 16.

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 and Opportunity Register means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Corporate Risk & Opportunity Register Q2 2018/19

Risk Identification Number (RIN)	Description	Risk Type	Possible Risk Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	**Delivering the Operational Plan to ensure a strong and sustainable County Council**	Economic	• Inability to deliver a balanced budget in future years	• Priorities Board established comprising work stream leads and chaired by the Chief Executive • Time table for each work stream has been developed and agreed • Programme Office is managing the overall programme of activity	20		16	Overall Risk Owner is CMT however there is a lead officer for each work stream	This is a new risk that is being monitored by both the Priorities Board and CMT
	1. Establishing a strong and visible leadership team		• Inability to attract high calibre candidates for the positions of chief Executive and Executive Director of Children's Services leading to less effective governance arrangements • Lack of buy-in/engagement from staff • Managers do not possess the leadership skills required, leading to demotivated staff and poor service delivery • The organisation does not have the right people in the right jobs leading to service failure • Staff do not know what is expected of them and they do not possess the skills to adequately do their job • Unable to meet Terms and Conditions savings targets	• Employment Committee on 28th June considered and agreed senior management recruitment arrangements. • Consultation with CMT members re team building concluded. Learning & Development working up proposal to go to CMT with September earmarked as a possible date for event. • Follow –up event with Heads of Service on Visions and Values and People Strategy held on 14 June. Key themes and messages circulated. These will be taken into account in developing the People Strategy. • HR Front Door projects addressing recruitment and learning and management systems progressing with project teams in place. • Visions and Values and People Strategy shared with executive. • Northamptonshire report considered at Leadership and Management Panel. Key issues to be incorporated as part of team building/ management development programme.		• The next meeting of Employment Committee will compile a shortlist of candidates for the permanent position of Chief Executive and a long list for the position of Executive Director Education and Children's Services. It is anticipated that interviews will take place in October 2018. • Work stream timeline to be reconsidered with reference to the draft People Strategy and actions re-prioritised • Roll out revised Personal Development Reviews – work ongoing • Agree approach to talent planning • Agree approach to succession planning • Develop management development programme • Undertake baseline staff survey – work ongoing • Draft People Strategy to be shared with wider leadership group • A refreshed intranet that establishes clear messages and a real sense of purpose			

Appendix A

	2. Embed a focus on service delivery to secure a better service at a lower cost		• Services become unsustainable and we cannot fulfil our statutory duties • Compounds ability to set balanced budget	• Service Challenge submissions still on track. • Review Panel Meetings scheduled – to the end of the stage 1 process. • Review Panel have considered a range of services. • Executive briefed on process • Discussion with LGA productivity experts regarding external challenge		• Service challenge reviews are progressing in line with agreed timetable • Mid-point review meetings being scheduled			
	3. Develop a sustainable financial strategy		• Unable to deliver a balanced budget in future years • Insufficient reserves • Services become unsustainable and we cannot fulfil our statutory duties	• Meetings held with a number of key stakeholders on the commercialisation strategy (and link to the Internal Scrutiny report on Income Generation) identifying owners of key strands of activity and approach e.g. assets. • Minimum Revenue Provision policy change – agreed approach. • Discussion held on any overlap between productivity work stream within the financial sustainability operational priority and the leadership / management operational priority • Analysis of Council and business rate tax base and collection benchmarking information with other councils and modelling of scope for additional income – discussion held at the revenue and benefits working group about options for seeking improvement. • Goods and services transactional expenditure analysed and largely matched to contracts register and identifying focus for detailed reviews. • Meetings held with LGA to review progress on both our offer to HMG and service challenges.		• Update Business Rate Retention Pilot Model • Discussions ongoing at Lancashire Chief Finance Officer meetings on Council Tax / Business Rates • Minimum Revenue Provision revision of policy report went to Cabinet and Full Council for approval in July. • LGA currently reviewing the draft commercialisation strategy • Looking at scope for utilisation of the LGA productivity improvement programme • Financial modelling of the offer to HMG options			

CR2	Protect and safeguard children	Social	Children are put at risk of harm.	• Clear line of sight to front-line practice at all levels: Chief Executive, Executive Director, Cabinet Member, DCS, Deputy Director and all managers to ensure leaders have a good understanding of the quality of practice and the safeguarding arrangements in place across children's services. • Clear governance and accountability arrangements in place via the Improvement & Accountability Board and the six boards which report to it. • Effective partnership arrangements at a strategic and operational level which support multi-agency working to safeguard and promote the welfare of children. Clear escalation processes in place where there is a professional disagreement. • Quarterly safeguarding meetings including the Chief Executive, DCS, Leader, Cabinet Member for Children, Young People & Schools, LSCB Chair and the Police. • DCS weekly meetings with Cabinet Member and Lead Member to discuss current issues/developments. • Serious Case Review learning shared to improve safeguarding practice. • MASH (Multi-Agency Safeguarding Hub) arrangements strengthened to ensure an appropriate multi-agency response where there are safeguarding concerns about a child with more timely decision making at the point of referral. • Serious incident reporting in place to ensure an appropriate response to serious safeguarding concerns and when necessary notification to Ofsted/DfE. • External reviews of front-line practice by Ofsted, DfE, LGA and North West ADCS to provide external, independent evaluation of the quality of practice. Robust audit arrangements and reporting in place to ensure an accurate understanding of the quality of practice. This has improved compliance and is starting to improve quality.	25	• New Children and Families Board to be established following the conclusion of the Improvement Board. • In line with revised "Working Together", (July 2018), new multi-agency safeguarding arrangements to be established, to ensure there is a shared responsibility between agencies for safeguarding and promoting the welfare of children. • Annual Improvement Plan to be developed following the recent Ofsted inspection to ensure continued improvement at pace. • Safeguarding arrangements have been strengthened. Ofsted inspection (June 2018) - Inspectors broadly agreed with our self-assessment. • As at June 2018, social worker and family support worker caseload averages are mostly in line with targets ("good" and "outstanding", respectively). Average: 22.9. However, some caseloads are significantly higher than this. • Number of inexperienced workers in post continues to decrease (April 2017: 50.1%, June 2018: 23.8%). • The proportion of experienced social workers has improved (April 2017: 15.2%, June 2018: 31.9%).	16	Director of Children's Services	The risk is being managed

				• Performance monitoring undertaken with action taken to address areas of underperformance and ensure service user records are accurate and up to date. • Social Work Academy established providing robust induction and continuous professional development for social workers.					
CR3	Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care.	Legal/ Political	Local Authority is legally and possibly financially liable, judicial review. Further OFSTED intervention.	• Robust audit arrangements including monthly audit cycle to check compliance and the quality of practice. Corporate legal oversight. • Serious incident reporting to ensure appropriate management oversight. • Serious Case Review learning shared. • External inspection and peer reviews. • Clear line of sight to front-line practice from the Cabinet Member and DCS and Stronger management oversight in districts. • Advanced Practitioners in post. Independent Reviewing Officer capacity increased and escalation of cases where there is none compliance. Change from generic to specialist teams has strengthened social work practice.	15	• Ofsted inspection June 2018: • noted significant improvements and, as a result, children's services are no longer inadequate. Practice is compliant with statutory requirements and audit is reliable and effective. • The way in which help and support is delivered to children in need is no longer a cause for concern. The Council is described as a committed and responsible corporate parent and the response to care leavers is now much more focused and supportive. • An Improvement Plan is in development to address the recommendations from the inspection and progress will be monitored via the Improvement & Accountability Board. • Sufficiency strategy: Both the Bungalow (complex needs unit) and Slyne Road (Adolescent Support Unit) are now registered with Ofsted. Building work at South Avenue (the crisis unit) is not yet complete. • An audit schedule for the next 6 months is in development with agreed audit priorities to ensure a continued focus on the quality of practice. • Significant progress made. Leaders can now demonstrate that they know their services well. The focus is now on making the cultural shift from compliance with statutory requirements to improving the quality of practice. • Further work is required to address variability in the quality of practice, to ensure that all children in need receive a consistently good service. • The pace of change needs to be maintained as part of our continuing improvement journey from requires improvement to be good.	12	Director of Children's Services	The risk is being managed
CR4	Recruit and retain experienced staff within Children's Services	Organisational	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	• Vacancy monitoring via quarterly workforce report; monthly monitoring via Improvement Dashboard. Weekly monitoring of social work workforce position and caseloads.	25	• Performance Development & Research Officer to undertake a more detailed analysis to inform our understanding of demand, including the source, type and reasons underpinning the increase seen in recent months.	16	Director of Children's Services	The risk is being managed

				• Workforce Strategy Board established to ensure strong focus on recruitment and retention and workforce development. • Revised supervision policy now in place to support staff retention. • Social Work Academy established providing robust induction and continuous professional development for social workers, including ASYEs. • 12 Advanced Practitioner posts support social workers to aid staff retention. • Leadership Academy now in place with particular focus on up-skilling first line managers to strengthen leadership of practice.		• Development programme for more experienced Grade 9 social workers. • Improve compliance with supervision requirements to ensure staff receive appropriate support. • Staff retention has improved and as a result experience levels have improved. The number of inexperienced workers in post continues to decrease (April 2017: 50.1%, June 2018: 23.8%). • The proportion of experienced social workers has improved (April 2017: 15.2%, June 2018: 31.9%). • The proportion of agency social workers has increased (April 2017: 15.8%; June 2018 18.1%).			
CR5	Managing our data well and producing effective management information	Organisational	Ineffective collection, collation and input of data Failure to improve quality of data in council systems including those that have already been implemented and those that are being implemented. 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 demand management e.g. around demographics and ageing population profile Ineffective reporting arrangements. Statutory returns will be compromised, so incorrect performance will be reported nationally, with potential for negative financial consequences OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance.	• Information Management Strategy. • Accuracy Steering Group chaired by Director of Adult Services oversees a programme of work to improve data quality within systems used by Adult Services • Data Quality and Performance Group oversees quality of information in systems for children's services • Regular provision of management information to staff at all levels across adults and children's services helps to embed ownership of data and improve recording. • Use of 'exception reports' which proactively highlights data anomalies and inconsistencies. • Development of a Corporate Performance Dashboard is facilitating a council-wide view of all services, which will improve the quality of reported data as anomalies will be highlighted.	16	• 'Project Accuracy' for Adults Services focussing on procedures and data quality is now underway. • Performance and Data Quality Group (Children's Services) is a well-established group facilitated by the Practice Improvement Officer. Heat maps have been designed to monitor Annex A data quality. • Additional temporary resource employed within Business Intelligence to provide reports for Project Accuracy 2. • Clear governance structure in place to ensure a continued focus on data quality/accuracy: • Data Quality and Performance Group. • LCS Systems Steering Group - provides governance to the DQP Group. • Practice Improvement Meetings (PIMs) looking at performance and data quality. • Children's Portfolio Review Board - development of systems within Children's Services. Governance Boards established for Early help Module, Education, Health and care Plans module and the Education Management System. • Draft Digital Strategy – the developing strategy has a work stream relating to data and developing an information architecture across the core systems. • Landscape review of business intelligence is currently being undertaken which will highlight opportunities for development and improvement of reporting systems.	12	CMT	Level

			Service planning and management will be severely compromised. Potential for incorrect payment of providers, staff etc			• Passport to Independence metrics – reliability issues within weekly data trackers in adult social services. Solution to issue currently being explored.			
CR6	Implement/maintain core systems that support the organisation, deliver transformational change and deliver efficiencies, cost reductions and produce effective management information that supports management decision making.	Organisational/Reputational	Front line service delivery impeded because new/old systems are not fit for purpose Back office unable to function Failure to maximise use of new technology, including mobile devices to deliver savings and to operate in a more effective way, including integration with partners. New systems are implemented without full transformational and operational processes being defined and tested that impact on service delivery. Lack of management buy-in from service areas to drive forward change and ensure services work to new practices in a consistent way so that system implementation is as smooth as possible and the council maximises the benefit from its investment in new technology. 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	• Roadmaps have been developed for all key major systems. Governance arrangements in place with full impact assessment carried out for all system changes. • Central co-ordination, control and monitoring in place which assists in performance management of BTLS. Corporate wide approach implemented for all system changes involving services, L&D, BI etc. on wider impacts and how system changes are managed into the business. • Sign off arrangements for roadmaps, including prioritisation of work, are in place. Boards have been established for major system implementations. • Current major implementations are: Early Help Module, Education, Health and Care Plans Module, MASH and CSE. • Implementation of On-Line School Admissions and Education Management system. • Information management strategy and approach being rolled out with all new systems. • Small transformation team available to support system changes and implementations supplemented by relevant service areas to encourage ownership, super users etc. Local Information Systems still exist but are being replaced over time with new core systems and other corporate solutions, i.e new Highways solution has replaced 23 existing systems.	16	• Continued monitoring of data within Lancashire Children's Service. • Programme of work rolled out to Lancashire Adults Service. New system roadmaps developed to provide more control over system changes. • Governance Boards established for Early Help Module, Education, Health and Care Plans module, MASH and Child Sexual Exploitation. • No major issues identified in recent Ofsted inspection. • Intensive early life support to services for newly implemented Highways system. Fortnightly meetings with service to discuss issues. Continuous tracking of issues and timescales for rectifying. After comprehensive work with the service and a review by audit a programme of work has been identified over a six month period to support the service in ensuring that the functionality of the system is used to best effect. • Critical incidents escalated within Corporate Services and BTLS.	12	Director of Programmes & Project Management	The risk is being managed

			controlled shutdown. Impact on service delivery	• Corporate performance information being developed as part of systems implementations though long term reporting tool needs developing and implementing. JSNA and other needs assessments. Discussed with various management teams on an ongoing basis. Weekly provision of information to operational managers for LCS. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. Uncontrolled and managed in a targeted way involving other key service areas to maximise benefit and support new framework contracts to ensure successful implementation. • New operating process and procedures developed and implemented to overcome recurring issues/problems - continuous improvement cycle implemented.					
CR7	Delivering major projects/schemes on time and within budget	Economic/ Political/Social/reputational	Scheme viability in doubt due to speculative estimating and project management Pressure on capital programme	• Capital Board • Capital Programme reports to Cabinet • Active project and programme management	16	• Initial review work undertaken of a sample of major capital schemes to improve the estimating and testing of current and future scheme costs. These include: ○ Reporting of cost ranges for new schemes ○ Routine updating of cost estimates ○ Inclusion of contingency at industry standards and benchmarks • Governance arrangements improved to provide structured challenge. Capital Board now has oversight of estimates as well as capital budgets so it can manage both through the life cycle of the project	12	Exec Director Growth, Transport and community services	Level
CR8	Delivering a statutory service for children and young people with special educational needs and/or disabilities.	Organisational/social	Not providing adequate service which places the LA at risk of appeals to SENDIST Tribunal, increased reputational risk via complaints corporately and to LGO. Unmet need will result in CYP failing to meet their potential and therefore not be supported as positively as possible into adulthood.	• Following the SEND Local Area Inspection a WSA has been submitted identify improvements to the service offered by LCC and the Clinical Commissioning Groups. The following areas were identified as requiring action: ○ The lack of strategic leadership and vision across the partnership ○ Leaders' inaccurate understanding of the local area	25	• Recruitment of qualified staff funded by the SEND reform grant. • Commissioning arrangements with Health being reviewed. • The actions to implement the Written Statement of Action. These include: ○ *SEND Partnership Board established with five thematic working groups to implement the written statement of action.* ○ *SEND Partnership team delivering a series of parent/carer engagement events across the county. Further programme of events are being planned for the autumn.*	16	Director of Children's Services	The Local Area SEND Inspection identified serious weakness in delivery of the SEND Reforms.

			The failure to recruit and retain staff. Lack of confidence in council services. The lack of accessibility and quality of information on the local offer	○ Weak joint commissioning arrangements that are not well developed or evaluated ○ The failure to engage effectively with parents and carers ○ The confusing, complicated and arbitrary systems and processes of identification ○ The endemic weaknesses in the quality of EHC plans ○ The absence of effective diagnostic pathways for ASD across the local area, and no diagnostic pathway in the north of the area ○ No effective strategy to improve the outcomes of children and young people who have SEN and/or disabilities ○ Poor transition arrangements in 0–25 healthcare services ○ The disconcerting proportion of children and young people who have an EHC plan or statement of SEN who are permanently excluded from school ○ The inequalities in provision based on location		○ *Open feedback survey in place.* ○ *Supporting the formation of a Lancashire Parent/Carer forum.* ○ *Implementation of the early help (IT) module.* • Strategic reporting and monitoring of improvement plan at Cabinet and CMT level. • Active leadership of Health and Wellbeing Partnership is leading SEND improvement plan.			
CR9	Discharge of patients from hospital into their own home or enablement/short term care in a safe and timely manner	Organisational	Service users staying longer in an acute hospital setting leads to deconditioning of service user (older people often lose 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. Risk that pressure to deliver targets results in expedient decisions which sees individuals discharged but not with the most suitable care	• Regular data set produced and analysed by business information. • Cluster boards for P2I for reablement and acute joined to ensure good communications. • Focus at Better Care Funds meetings. iBCF spending plan, which is intended to have positive impact on DTOC, agreed by HWBB in August 2017.	20	• Commissioned home care framework. • Increased capacity of reablement service. • Weekly "winter" ops and commissioning meeting. • Implementing of eight high impact changes using iBCF monies to facilitate. • Roll out of passport to independence in an acute setting. • DTOC Board established. • Programme Office defined future governance and programme management. • NHSE and LGA issued an Enhanced Care Support Offer which Newton Europe will deliver and is targeted at areas which will include Lancashire (1 of10 areas) where there are challenges in meeting DTOC Nov 2017 target ostensibly due to performance at LTHT. • H&WBB held a Check and Challenge panel 8/1/18 to establish what is working and to be systemised and standardised across entire system and where there are barriers and how as a system we will tackle with BCF steering group holding the accountability for progressing/monitoring.	16	Exec Director of Adult, Health and Wellbeing Services	Level

			package and thus recovery and independence not promoted and risk of readmission Inability to agree or deliver challenging Delayed Transfer of Care (DTOC) national targets. Inability to manage short term pressure for reablement services.			• IBCF LCC slippage made available to all health economies to accelerate high Impact programmes changes. • LCC instituted a DTOC tracker to take a grip of performance in each of acute settings and DTOC analysts recruited to grip individual cases and progress chase in each of acute settings.			
CR10	Adult social care provision is adequate and responsive to meet current and future demand	Organisational/social/economic	People's' needs are not met due to non-availability of care provision. The market is not responsive enough to respond to demand. People living in rural areas or with very complex needs are difficult to find appropriate support for. Delays to Hospital discharge, blocking moving on from enablement or Short Term Care, people remain at home without support. People with complex health and social care needs cannot be supported appropriately.	• The Homecare Framework has commenced and care provision is tendered in 'lots' covering all areas of the County. Care is sourced and awarded on a rotational basis across all providers for that area to guarantee adequate volumes of work and create sustainability. • Work needs to be undertaken around the residential care market. • Through the work of P2I, people are able to optimise their independence, access the right service at the right time, and reduce dependency on formal support as appropriate. This in turn will support the demand on the market.	15	• Weekly Homecare mobilisation operational meetings to review progress/raise challenges/agree actions. Board oversight. • Weekly domiciliary care delays circulated for information across ops/Commissioning/Contracts	12	Director of Adult Services	Level
CR11	Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)	Organisational/economic /social	Failure to achieve Payment by Results targets due to specific requirements of the programme. Failure to accrue maximum income from the programme for the authority. Failure to meet savings target attributed to the service for current financial year.	• Robust tracking processes in place with view to maximising payment by result claim opportunities. • Ongoing data matching to identify new eligible families • The target in the MTFS for TFU Payment by Results (PBR) claims for 2017/18 was for 1,500 PBR claims to be made and this target has been exceeded. The position as at 22/03/2018 is that 22% of the PBR claims available have been claimed with just over 2 years of the programme remaining. • The current positive trajectory is anticipated to continue to improve	20	• Development of reporting processes to ensure monthly progress checks against targets • Redesigning of outcomes plan to set more achievable/realistic targets • Review of Governance Arrangements commissioned. • Districts supported to identify families where potential claims can be made • Workforce development complete for shared assessment. Lead Professional and Risk Sensible approach. • Revised assessment CAF documentation, Quality Assurance and processes to assist in meeting requirements.	16	Director of Public Health	Level

			Possible reputational risk as a result of missing a national target. Possible reputational risk if progress not made with the TFU Maturity Model and service transformation with partners. Risk of additional scrutiny of programme	with the team ensuring that all available data and information systems are fully utilised to maximise PBR claim opportunities		• TFU Maturity Model self-assessment completed and developed action plan to support delivery and improvement.			
CR12	Unlawful disclosure of personal or commercial data caused by a deliberate or accidental or technical breach resulting in a risk to the rights and freedoms of the data subject or the intellectual property of the county council.	Organisational/reputational/financial	Potential impact on the data subject – Physical/financial/mental harm including potential distress and in some circumstances a threat to their safety. Potential impact on the county council if the organisation's confidential commercial data has been exposed resulting in a material loss Financial penalty given to the council by the Information Commissioner (up to £17.7 million). Compensation claim to the council by the data subject. Reputational damage to the council	• Information Security Incident Management Policy. • Information security incident reporting form seen by SIRO, DPO, and IG Managers. • Senior Information Security Officer dedicated to investigating and risk assessing all incidents (not every incident is a breach). • Close relationship with the ICO • Very proactive SIRO reporting to CMT and Heads of Service. • Dedicated DPO and IG Manager promoting risk management actions. • Regular staff notices and key messages to all staff. • Mandatory eLearning course for all staff which has to be repeated if user is responsible for an incident. • Controls in place with BTLS to consult IG regarding issues or access.	16 (Major/ Likely)	Extra controls created to comply with GDPR… • Procedure set up to report certain types of personal data breach to the ICO within 72 hours of becoming aware of the breach. • Robust breach detection, investigation and internal reporting procedures in place, facilitating decision-making about whether or not to notify the ICO and the affected individuals. • A comprehensive record of all personal data breaches. • Advice given to managers on whether disciplinary action is recommended. • HR Policy has been revised to include serious data breaches as an example of gross misconduct • Executive Directors and Directors and Heads of Service informed of all serious breaches in their service area.	12 (Major/Possible	Director of Corporate Services	Downwards
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	**Delivering the Operational Plan to ensure a strong and sustainable County Council** Delivering growth and prosperity for	Economic/ Political/organisational	Self-sustaining organisation Stronger and growing economic base Ability to deliver affordable high quality services with outcomes relevant to the needs of our residents,	• Lancashire Enterprise Partnership (LEP) 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	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. • The County Council to give greater consideration to using its investment and prudential borrowing	16	CMT	Level

	the whole of Lancashire		communities and businesses Improved productivity and earning power of all residents Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully securing 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.	and Lancashire City Deal, Growth Deal, three Enterprise Zones, Growing Places Funding, Boost Business Lancashire and Superfast Broadband. • ESIF monies, both Regional Development Funds and Social Funds, totalling circa £200m are currently ring-fenced for use in Lancashire (LEP area) over the next 5 years. This supports business support initiatives, innovation investment, environmental and flood mitigation measures as well as skills development and employability work. Post Brexit vote, projects which have been through the full approval process are not able to sign a final contract with MHCLG and project funding is being restricted to spend prior to end 2018. Significant beneficiaries include the Council, other local authorities, Higher Education Institutes' and Colleges.		capacity and investment funds to bring forward a portfolio of strategic development opportunities • Recent Growth Deal settlement of circa £70m will provide resource for six key projects to advance over the next three years. The LEP has secured a £320M Growth Deal programme to be delivered by 2021. • Work with local authority partners and the LEP to agree: ○ a Local Industrial Strategy (aim to be an early adopter) ○ a new Lancashire Prospectus ○ an approach to future growth initiatives and priorities the London School of Economics have been secured as a critical friend • Economic Development's main ERDF project Boost, has secured a Grant Funding Agreement and is applying for funding to the end 2021. Business Growth Service staff will, as far as possible, seek to frontload activity and spend within this project in-case funding or activity is prematurely curtailed. For the programme as a whole, we have issued calls in all measures in an effort to defray as much of the programme as early as possible. We are now looking to a further bid which could take the project to 2021. • 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 completive rounds of national or sectoral productivity funding. The development of a UK Shared Prosperity Fund could also create new funding opportunities for place-based growth strategies – though further details not expected until later in 2018. • Lancashire Leaders have agreed to a "growth" workshop on 24 July to develop shared priorities with the support of the LEP. • Lancashire's Transforming Cities submission with Government. • Secured national Digital Skills Pilot status			

CO2	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	Dir of Corporate Services	Upwards
CO3	Develop and implement improved recruitment and retention practices to address increasing challenges	Organisational	Reduced staff turnover, especially 'hard to fill' roles; improve staff morale; reduce costs; reduce sickness absence; improve productivity.	Draft action plan produced. Focus initially on Children's and Adult Services.	12	• Align to wider draft 'People Strategy' • Following requests from recruiting managers to improve the recruitment process, a small task group was established to identify and implement 'quick win' recruitment improvements. • Working with high recruiting services, these improvements which include improved guidance and support, and quicker and easier processes and systems, have increased the number of applications to our roles and reduced recruitment times for roles in Adults Services from around 7 months to 2 months. • We have started to develop the foundations of smarter recruitment practices which are being piloted in Adults and Children's Services. • We are also building and developing the Lancashire brand to help us attract high quality candidates.	16	Dir of Corporate Services	

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			

Agenda Item 8

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

Electoral Division affected:
(All Divisions);

Treasury Management Activity 2018/19
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

This report provides a review of Treasury Management activity for the period April to September 2018, including a summary of:

- The economic conditions;
- Borrowing activity;
- Investment activity; and the
- Actual results measured against the Prudential and Treasury Management indicators for the period

Recommendation

The Audit, Risk and Governance 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 April to September 2018. This report outlines the borrowing and investment 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.

Lancashire County Council

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 sets out a policy in respect of borrowing and investment activity. Risks associated with these activities in 2018/19 are referred to in this report.

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

Paper	Date	Contact/Tel
Treasury Management Strategy 2018/19	February 2018	Paul Dobson (01772)/534725
CIPFA TM Code of Practice	2011	Paul Dobson (01772)/534725

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Activity
April to September 2018

The 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 activities. As a minimum this should cover an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

This report provides a review of treasury management activity between 1 April and 30 September 2018.

Economic context

During the period, economic growth has continued to be positive, albeit at historically low levels, and unemployment is low with the Bank of England projecting that it will fall a little further. At the same time, inflation has remained above the Bank of England's 2% target rate. In August the CPI rose to 2.7%. As a consequence of these economic factors, in August the Bank of England's Monetary Policy Committee (MPC) voted unanimously to increase Bank Rate by 0.25% to 0.75%.

Internationally, the US economy has continued to grow and at their meeting in September the central bank increased interest rates for the third time in 2018. In Europe the level of growth has moderated after a period of strong growth.

There is still a lot of uncertainty over the economy much of it arising from political factors. Domestically, the progress and unknown impact of the UK's withdrawal from the European Union continues to dampen investment. On the world economy the period has seen an increase in the potential for a trade war between the USA and China. Economic problems in Turkey and Argentina are also causing concern in international markets.

Interest rate environment

The Bank of England has raised expectations of gradual increases in interest rates and the increase in August was part of this. It is expected that this trend will continue. This is reflected in the Arlingclose forecast for interest rates. Their central forecast sees a further 0.25% increase in March and September 2019 which would take the bank rate to 1.25%. They anticipate the rate would then stay constant up to September 2021 which is the end of the forecast period. However, with the current economic data and the risks in the economy they consider that there are also downside risks to the forecast.

Implications for the council's treasury strategy

Since 2010 the council has used short term 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. Despite the recent increase in the base rate, rates are still low and the Arlingclose forecast suggests that this will remain the case for the rest of the financial year. The prospect of interest rate increases will continue to be monitored.

Although it is not anticipated that the interest rates will rise significantly over the next three years the opportunity to take fixed debt for a longer period will be kept under consideration.

Treasury management policy

Full Council approved the 2018/19 treasury management strategy at its meeting on 8 February 2018. The council's stated treasury management objectives are:

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

Investment Activity

Investments at 30 September totalled £573.5m and consisted of £168.8m in bank and local authority deposits and £404.7m in corporate and government bonds. The following table shows the investment activity between 1 April and 30 September.

Bank and Local Authority Deposits	Call accounts	Fixed	Structured	Total
	£m	£m	£m	£m
1 April 2018	49.6	74.8	0.0	124.4
Maturities	-243.8	-104.5	0.0	-348.3
New Investments	196.7	196.0	0.0	392.7
30 September 2018	2.5	166.3	0.0	168.8
Bonds	LA Bonds	Gilts	Others	Total
	£m	£m	£m	£m
1 April 2018	35.6	97.2	63.2	196.0
Maturities/sales	-2.8	-1,011.4	-282.8	-1,297.0
New Investments	0.3	1,155.9	349.5	1,505.7
30 September 2018	33.1	241.7	129.9	404.7

Within the period, there has been an increase in the level of investments held. This is mostly resulting from the level of balances held at 31 March 2018 being relatively low due to the use of internal borrowing at that time and the positive cash-flow in the year to date. It is anticipated that during the rest of the year the investments will fall as the impact of the use of reserves materialises. In line with the treasury management strategy, the investments have been made in low credit risk investments, principally Gilts and fixed deposits with other local authorities.

The current rate of return on the investment portfolio measured by Arlingclose is 1.46% which compares favourably with the benchmark 7 day LIBID that averaged 0.43% over the same period.

Borrowing activity

The council's capital programme includes a requirement to borrow to fund new capital investment. With the low interest environment anticipated to continue any new borrowing has been with other local authorities and it is relatively short term in duration. The table below summarises the borrowing activity which has taken place between 1 April and 30 September.

Borrowing	PWLB Fixed	PWLB Variable	LOBO*	Police, Fire & Lancashire District Councils	Other Local Authorities	Total
	£m	£m	£m	£m	£m	£m
1 April 2018	213.1	125.8	50.0	42.6	518.5	950.0
New Borrowing	0.0	0.0	0.0	328.2	439.3	767.5
Maturities	0.0	0.0	0.0	-281.1	-329.0	-610.1
30 September 2018	213.1	125.8	50.0	89.7	628.8	1,107.4
PFI Liability						157.4
Total Borrowing						1,264.8

*Lender option borrower option loan

Total borrowing at the end of September was £1.265bn including the financing of £157.4m of assets through remaining PFI schemes. The outstanding borrowing has increased by £314.8m in the period.

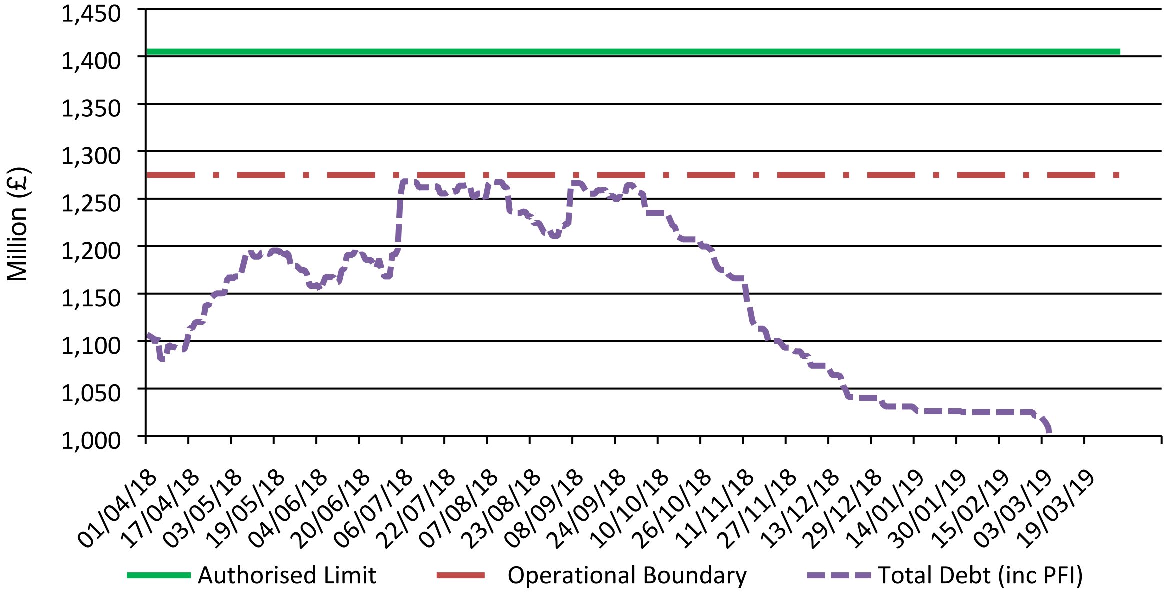
This increase is due to the requirement to fund the capital programme. It includes the reduction in the use of working capital from 1 April and an increase in investments from other authorities.

The actual borrowing at 30 September is higher than the amount required, as defined by the Capital Financing Requirement (CFR). However within the actual borrowing at 30 September there is some £280m which will mature before the end of the financial year, bringing the total borrowing below the CFR once again.

A key concept in managing the level of debt is the comparison to the authorised and operational limit. 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 limit is a prudent estimate of debt with 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.

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



Total debt during the year has remained below the authorised and operational limits.

The current interest rate payable on debt measured by Arlingclose is 1.87%. The most recent benchmarking figure available of the average rate for all Arlingclose clients (as measured on 31 March 2018) is 3.66%.

Budget monitoring position

The net financing expenditure for 2018/19 is forecast to be £13.3m lower than budget at the end of the financial year. The main reasons for this are:

- The change in the Minimum Revenue Provision (MRP) policy has resulted in a reduction of £9.4m in the MRP charge
- The sale of bonds has resulted in a net gain of £3.6m
- Increased traded bond coupon and other investment income of £0.3m

The position is kept under regular review and discussed with the Director of Finance on a monthly basis.

Prudential indicators

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 the council's capital investment plans are affordable, prudent and sustainable.

During the reporting period the council has been within the prudential indicators approved as part of the treasury management strategy on 8 February 2018. Annex A provides details including the 2018/19 limit and the actuals at September 2018.

The investments over 364 days indicator is a limit which helps to control liquidity. For 2018/19, it was initially approved at a limit of £300m although it was stated that the limit was an operational one and therefore if required can be exceeded with the approval of the Director of Finance.

It was anticipated that the reserves and balances would fall during the year and that the £300m amount was more indicative of the year end position rather than the start. This was the case in the first half of the year and the Director of Finance therefore approved a limit of £450m to be used. The latest estimates are that reserves and balances will still reduce during the year but not by as much as initially anticipated. It is currently estimated that the level of reserves and balances at 31 March 2019 will be £375m. As such, it is proposed that a limit of £425m is approved for the rest of the year. However, the level of reserves will continue to be monitored and the level of investments reduced as required.

Annex A

Prudential Indicators

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

2. Authorised limit for external debt	Limit £m	Actual £m
Borrowing	1,220	1,107
Other long term liabilities (PFI schemes)	185	157
TOTAL	1,405	1,264

3. Operational boundary for external debt	Limit £m	Actual £m
Borrowing	1,115	1,107
Other long term liabilities (PFI schemes)	160	157
TOTAL	1,275	1,264

4. Capital Financing Requirement to Gross Debt	Limit £m	Actual £m
Borrowing Capital Financing Requirement	953	906
Estimated gross debt	1,095	1,107
Debt to Capital Financing Requirements	115%	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.

5. Ratio of financing costs to net revenue expenditure

This indicator provides information on the impact of borrowing on the revenue budget and the long term affordability of the capital programme.

	Indicator	Latest estimate
Ratio of capital financing to net revenue expenditure	5.2	3.4

Treasury Management Indicators

1. Interest Rate exposure

The limit measures the county council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.

	Upper Limit	Actual
	£m	£m
Net Interest Payable – Fixed Rate	50.4	7.7
Net Interest Payable – Variable Rate	5.0	4.9
1 year impact of a 1% rise	10.0	2.4

2. Maturity structure of debt

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

	Upper Limit	Actual
Under 12 months	75%	34%
12 months and within 2 years	75%	36%
2 years and within 5 years	75%	9%
5 years and within 10 years	75%	6%
10 years and above	50%	16%

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	Actual
	£m	£m
Long term investments	300	390

4. Minimum Average Credit Rating

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

	Benchmark	Actual
Average counterparty credit rating	A+	AA+

Agenda Item 9

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

Electoral Division affected:
(All Divisions);

General Data Protection Regulation Update

Contact for further information:
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paul.bond@lancashire.gov.uk

Executive Summary

The report provides an update on the implementation of controls to ensure compliance with new data protection legislation across the authority.

Recommendation

The Audit, Risk and Governance Committee is asked to note the report.

1. **Background**

The General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA 2018) came into force in the UK on 25 May 2018. The legislation makes provision for the processing of personal data. Personal data means any information relating to an identifiable living individual.

Data protection principles

Six data protection principles (rules) for processing personal data came into force, they said that personal data must be:

1. Processed lawfully, fairly and in a transparent manner (we must have a legal basis for processing and tell the data subject what we are doing with their data via a privacy notice).
2. Processed for specified, explicit and legitimate purposes (we can't collect it for one reason and use it for another).
3. Adequate, relevant and limited to the purposes for which we collected it (we can't collect more than we need).
4. Accurate and up to data (we have to ensure data quality).
5. Not kept longer than is necessary (we need to set data retention periods).
6. Processed in a manner that ensures security (we need to use technical and organisational controls to ensure the security of personal data).

Lancashire County Council

Lawful reasons for processing personal data

The first principle (processed lawfully) means we need to satisfy one of the following lawful reasons for processing personal data:

- Consent of a data subject (positive affirmation of consent).
- Processing is necessary for the performance of a contract with the data subject (e.g. employment contract).
- Processing is necessary for compliance with a legal obligation (e.g. The Care Act).
- Processing is necessary to protect the vital interests of the data subject or another person (to protect someone’s life).
- Processing is necessary for the performance of a task carried out in the public interest (public health purposes or social protection but based in law).

There are also extra restrictions on processing more sensitive personal data such as health data and crime data.

Personal data breaches

The sixth principle covers security. If we are responsible for a personal data breach leading to the unauthorised disclosure of personal data we could be heavily fined by the Information Commissioner's Office and the data subject would have the right to claim compensation if they have suffered a risk to their risks or freedoms.

New rights

The legislation has given people a new set of 'rights'…

- The right to be informed of what we do with their personal data - via Privacy Notices.
- The right of access to their personal data - via Subject Access Requests (SARs), the timescale for response has been reduced from 40 calendar days to one calendar month.
- The right of rectification - inaccurate or incomplete data must be rectified within one month.
- The right to erasure - individuals have a right to have their personal data erased and to prevent processing unless we have a legal obligation to do so.
- The right to restrict processing - individuals have the right to suppress processing. We can retain just enough information about the individual to ensure that the restriction is respected in future.
- The right to data portability - we need to provide individuals with their personal data in a structured, commonly used, machine readable form when asked.
- The right to object - individuals can object to their personal data being used for profiling, direct marketing or research purposes.
- Rights in relation to automated decision making and profiling - the GDPR provides safeguards for individuals against the risk that a potentially damaging decision is taken without human intervention.

Information sharing and privacy

We must now include GDPR in all our contracts where personal data is processed and we must have:

- Information sharing agreements with our partners where we are joint data controllers.
- Privacy notices to give out and put on the Internet to tell people what we are doing with their personal data.
- Privacy impact assessments at the start of any project where personal data is to be processed so as to risk assess the project against legislation compliance.

Fines

If we do not comply with the legislation, the Information Commissioner's Office can issue the county council with an:

- Information notice asking for information about our processing.
- Assessment notice saying an assessment by the Information Commissioner's Office will take place.
- Enforcement notice ordering us to take or refrain from certain actions including the erasure of data.
- Penalty notice for the infringement of data protection of up to 20 million euros or 4% of turnover.

One of the biggest changes in the legislation is that the council must keep evidence of our compliance.

2. What the County Council have done to comply with the new legislation

Preparations for GDPR and DPA 2018 began at the start of 2017 with the Information Governance Team systematically assessing each part of the legislation and putting controls and processes in place to ensure the authority would be compliant when the legislation came into force on 25 May 2018.

The following actions have been taken:

Governance arrangements

- The responsibilities of the Senior Information Risk Owner (SIRO) and the Data Protection Officer (DPO) have been assigned to senior members of staff.
- The Corporate Information Governance Group (CIGG) meets once a quarter to ensure that the council is compliant with all data protection legislation. The group is chaired by the Information Governance Manager and includes key senior officers across the authority who have responsibilities for data protection.
- A dedicated security manager investigates all information security incidents. All council staff have a mechanism for reporting information security incidents.

This facility is also available on the council website for service users, partners and suppliers to report information security incidents.
- A dedicated assurance manager satisfies the new 'accountability principle' through spot checks, audits and performance statistics.

Requests for help

- In 2017 the Information Governance Team dealt with **4,050** registered requests for help or action in connection with data protection.
- In 2018 (to 1 October 2018) the Information Governance Team has dealt with **9,484** registered requests for help or action in connection with data protection. This gives a projected increase for the year of 200%.

Awareness and advice

- A presentation has been given to all services across the council and has been made available on the Intranet.
- The mandatory annual information governance eLearning course has been updated to include the new data protection legislation and has been completed by 76% of all staff. Staff who do not have access to the network have been given a hard copy.
- Specialist training including face to face and eLearning training has been undertaken by all staff working closely with GDPR, including the council's SIRO, the DPO and all members of the Information Governance Team. All are now registered GDPR Practitioners.
- Bite sized briefings and bespoke advice has been given to all Councillors.
- A compliance letter has been made available for all services should they need to show compliance.
- All schools in Lancashire have had access to bespoke face to face training organised by the council and a school pack of templates and advice has been made available on the schools portal. General specialist advice has also been given to all schools requesting help.
- Specialist advice has also been given to care homes to help them comply with the new data protection legislation.
- Staff notices and team talk articles and the Chief Executive's blog have all regularly updated staff on the new legislation.
- A large Intranet web site comprising help and advice regarding the new legislation is available for all network users, alongside hard copy advice for non-network users. The advice is comprehensive and covers all relevant areas and includes a 'top tips' and a 'question and answer' section. Advice and guidance published in the 'raising awareness' section includes the GDPR staff presentation, a quick guide, implications for councillors and advice on consent and contracts. There is also a standard letter that can be adapted to show how services comply with GDPR and the DPA 2018.

Record of all personal data processing

- The Information Governance Team conducted an internal audit of all personal data being processed across the council. This was done in conjunction with

Heads of Service and Information Governance champions. The audit record shows the purpose for processing, who the data is shared with, how long we keep the data, the security measures used to protect the data and the legal basis for processing the data.

- Where consent is the legal basis for processing the audit records show where the evidence of consent is held.

Legal contracts, policies and sharing agreements

- Existing contracts are in the process of being varied to meet the GDPR requirements. This is a very time-consuming task. Revised contract clauses have been prepared for inclusion in new contracts. Where the lawful basis for processing is consent, standard consent letters have been created and distributed.
- Advice has been given regarding hundreds of projects dealing with personal data, privacy impact assessments have been completed and saved with the project documentation.
- A general privacy notice and multiple service specific privacy notices have been created and published on the Internet and given out to service users, showing them how their personal data is being handled in line with the new legislation. The notices detail all personal data processing, information sharing, people’s rights and retention periods, and how to exercise their new rights.
- A system to deal with requests in regard to these new rights has been created. This includes the 'right of access' where the statutory response time for SARs has been reduced from 40 calendar days to 1 calendar month.
- An award winning information sharing gateway has been created to allow organisations sharing data (joint data controllers) to do so electronically and within the parameters of the legislation via information sharing agreements. To date there are 383 organisations using the gateway to share data with the council, with all data flows being listed and signed off by senior officers.
- Regular meetings take place with the council's major partners and suppliers, including BTLS (ICT) and LPP (Pensions) to ensure compliance with the legislation.
- All 19 IG policies were reviewed and updated in early 2018 to reflect the introduction of GDPR, including policies on security, information handling, access controls, and internet, email and telephone use. The policies were subsequently approved by CIGG in February 2018 as part of the annual review of the information governance framework and policies.

Security

- The council has a dedicated officer who manages and investigates all information security incidents and liaises with the Information Commissioner's Office regarding any breaches of the legislation that occur. To date the council has never been fined and this is purely down to the number of controls in place at the council.
- All reportable data breaches, are reported to the Information Commissioner's Office within 72 hours of us becoming aware of them as required by the

legislation. Breaches are reportable if they pose a risk to a person's rights and freedoms.

- The information Security Incident Management Policy sets out the types of incident and how these are to be reported and investigated. The policy describes the action required to ensure that breaches are responded to appropriately, including an online incident report form which is delivered electronically to the SIRO, DPO and the Information Governance Team.
- The Senior Information Security Officer investigates all incidents and completes an Information Security Incident Risk Assessment. Incidents of personal data sent to the wrong person are reported to the Corporate Management Team in a quarterly dashboard and evidence relating to the investigation is recorded on the Information Governance Team's case management system.
- The number of information security breaches reported to the Information Commissioner's Office in 2017 was 6 of 185 incidents and up to Q3 in 2018, 9 of 258 incidents. This information is reported on the Information Governance intranet site and to CIGG. The reason for the increase is due to the increase in awareness across the authority of the need to report incidents that could be possible breaches of the legislation.
- The Information Governance Team's risk register was updated in 2018 to reflect the introduction of GDPR, and is reviewed quarterly in line with corporate risk management requirements. The Corporate Risk and Opportunity Register includes an information security risk and identifies additional controls introduced to comply with GDPR.
- BTLS manages the technical security of the network and pass any requests in connection with the legislation through to the Information Governance team for approval.

Internal audit report

- In September 2018 the Internal Audit service carried out an audit into the council's compliance with GDPR and the Data Protection Act 2018. The audit gave the council 'Substantial Assurance' and zero actions to complete.
- The internal audit report concluded:

    - *Overall, we can provide **substantial** assurance over the arrangements put in place by the council to ensure the council's information governance (IG) strategy, policies and procedures are GPDR compliant. A new IG framework allocates data protection roles and responsibilities, lists IG policies and records improvement actions. Officers and members have been made aware of the changes in the law through publication of updated policies and training. Data processing audits were performed to assess the implications of GDPR on services, including the lawful basis for processing data, and privacy notices and procedures for obtaining consent were subsequently updated.*

Consultations

N/A

Implications:

N/A

Risk management

The risks of not complying with the new data protection legislation include:

- Fines of up to £17.7 million (20 million euros)
- Damage to the reputation of the council
- Risks to the rights and freedoms of the council's staff and service users

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

Paper	Date	Contact/Tel

None

Reason for inclusion in Part II, if appropriate

N/A

Agenda Item 14

(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 2 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix 'A'

(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 2 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted