Lancashire County Council

Audit, Risk and Governance Committee

Monday, 28th January, 2019 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 29 October 2018** To be confirmed, and signed by the Chair.	(Pages 1 - 10)
4.	**External Audit - Audit Progress Report and Sector Update 2018/19**	(Pages 11 - 24)
5.	**Internal Audit Progress Report**	(Pages 25 - 42)
6.	**Accounting Policies used in the Preparation of the Statement of Accounts 2018/19**	(Pages 43 - 68)
7.	**Treasury Management Activity 2018/19**	(Pages 69 - 76)
8.	**Treasury Management Strategy and Investment Strategy 2019/20**	(Pages 77 - 100)
9.	**Corporate Risk and Opportunity Register Quarter 3**	(Pages 101 - 118)
10.	**Skills and Development Needs Review**	(Pages 119 - 136)
11.	**Protocol for Grants to the Community and Voluntary Sector**	(Pages 137 - 162)

Lancashire County Council

12. Urgent Business

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

13. Date of Next Meeting

The next meeting of the Committee will be held on Monday 20th May 2019 at 2.00pm at County Hall, Preston.

Part II (Not open to Press and Public)

14. Lancashire Central - Cuerden (Pages 163 - 168)

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 29th October, 2018 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

J Berry	J Shedwick
T Martin	A Vincent
E Nash	P Williamson
M Parkinson	

County Councillor Lorraine Beavers attended the meeting under Standing Order C13.

1. Apologies

None received.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Special Meeting held on 28 August 2018

There were no issues arising from the Minutes of the special meeting held on 28 August 2018. However, the Chair took the opportunity to remind Members that at a previous meeting they had agreed to undertake a training needs analysis to identify areas for training and development. Members who hadn't already done so, were encouraged to complete and return the training needs analysis questionnaire.

Resolved: - That, the minutes of the special meeting of the Audit, Risk and Governance Committee held on 28 August 2018 be confirmed and signed by the Chair.

4. The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2017/18

The committee considered a report setting out the Annual Audit Letter for the county council and the Lancashire County Pension Fund for 2017/18.

It was reported that the Annual Audit Letter confirmed the actions that had been undertaken by Grant Thornton, the county council's external auditors, together with the key messages in relation to the financial statements audit and audit opinion, and the Value for Money conclusion. It was noted that an audit certificate could not be issued for the year ending 31 March 2018, as had also been the case in recent financial years, due to the ongoing police investigation but once this had concluded the external auditor would issue the certificates.

In commenting on the Audit Letter, Mike Thomas, external auditor, informed the committee that the provisional fee set out on page 21 of the agenda report had now been confirmed.

The Chair clarified that this was the second and not the first full year that the accounts had been completed by 31 July. The external auditor agreed to amend the Annual Audit Letter accordingly.

Resolved: - That subject to the above amendments, the Annual Audit Letter for 2017/18 as set out at Appendix A to the report be noted.

5. External Audit - Audit Progress Report and Sector Update 2018/19

Mike Thomas, Director, Grant Thornton, presented the External Audit update report to the committee which included progress to date with the 2018/19 audit of the accounts, Value for Money conclusion and other work. The report also provided additional information on sector developments to members of the committee as those charged with governance for the county council.

Mike announced that this would be his last meeting before moving on to take up a new position in Jersey. He also advised that his colleague, Richard McGahon, would also be leaving to take up a new role with Cumbria County Council.

The Chair wished them well on behalf of the committee and thanked them for their contribution to the committee.

Resolved:- That the External Audit Progress Report and Sector Update 2018/19 set out at Appendix A to the report be noted.

6. Internal Audit Progress Report

The committee considered a report setting out details of the work undertaken by the Internal Audit Service against the Audit Plan for 2018/19 which had been approved by the committee at its meeting on 30 April 2018.

It was noted that the Audit Plan set out a framework for the reports which the committee would receive during the course of 2018/19 and the outcomes of a number of audits would be reported to the committee in January 2019.

The report highlighted key issues arising from the work undertaken during the period by the Internal Audit Service under the agreed Internal Audit Plan, progress against the Audit Plan and a brief summary of the assurance provided for each of the audits for 2018/19. The report also set out details of the progress made by managers in implementing actions.

The Head of Internal Audit responded to questions raised by the committee in relation to the public service vehicle operator licenses. The officer agreed to investigate and report back to the committee on whether, in addition to the council's compliance with heavy goods vehicle operator licence conditions, the audit work should also encompass the Minibus Driver Awareness Scheme (MiDAS Scheme).

In response to further questions, the Head of Internal Audit agreed to write to all members of the committee to confirm the figure quoted for outcome claims in relation to the Troubled Families programme.

Officers also responded to questions raised with regard to the 'limited assurance' given to the recovery of costs/income from partner organisations and the oversight of payroll payments.

Resolved:- That the Internal Audit Service progress report and outcomes of the work for the period to 30 September 2018 be noted.

7. Corporate Risk and Opportunity Register Quarter 2

The committee considered a report setting out details of an updated (Quarter 2) Risk and Opportunity Register.

The report, which had previously been considered by the Cabinet Committee on Performance Improvement, highlighted one new entry to the register (CR12 – Unlawful disclosure of personal or commercial data...). The committee was informed that from April to June 2018, there had been 98 data incidents and that by allowing for mitigating actions, this risk had a residual score of 12. The committee noted that further mitigating actions were planned which included a new training course for staff.

Resolved: - That the updated Corporate Risk and Opportunity Register as set out at Appendix A to the report now presented, be noted.

8. Treasury Management Activity 2018/19

The committee considered a report setting out a review of the county council's treasury management activities for the period April to September 2018, including a summary of economic conditions; borrowing activity; investment activity; and the actuals measured against the prudential and treasury management indicators for the period.

Officers responded to questions raised by the Members in relation to the council's reserves and balances for the remainder of the year. The committee was assured that the level of reserves and investments would continue to be closely monitored.

Resolved: - That the treasury management activities set out in the report now presented, be noted.

9. General Data Protection Regulation Update

A report was presented on an update on the implementation of controls to ensure compliance with new data protection legislation across the authority.

It was noted that the Internal Audit Service had carried out an audit into the council's compliance with General Data Protection Regulation and the Data Protection Act 2018 and had given the council 'Substantial Assurance'.

Debbie Bonser, the council's Information Governance Manager, responded to a number of questions raised by Members with regard to the new legislation and the allocation of data protection roles and responsibilities. Following further discussion, it was agreed that Members of the committee would be provided with details of the designated 'data controllers and processors' in respect of the council's major partners and suppliers.

Resolved: That the report be noted.

10. Delays and Overspends on Major Projects, with Specific Reference to the Central Lancashire Strategic Site

The committee was advised that the briefing note accompanying the oral update included exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972. It was therefore recommended that this item of business be moved into Part II of the agenda.

Resolved: That this item of business be moved into Part II of the agenda.

This item was therefore considered following Item 13 of the agenda (Exclusion of Press and Public)

Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interests in disclosing the information).

The committee considered a briefing note together with an oral update by the Director of Finance setting out an update on delays and overspends on major projects, with specific reference to the Central Lancashire Strategic Site.

It was reported that Governance of the capital programme had been strengthened under the auspices of the Capital Board where responsibility for oversight and challenge of cost estimates and capital budgets sits. A comprehensive review of the projects for 2018/19 including prior year slippage had been undertaken by project and programme managers, supported by finance and commissioning. The primary purpose of the review was to propose a delivery programme for 2018/19 which was approved by Cabinet in September and which now formed the agreed baseline for monitoring purposes. The review was focused on:

- Updating the delivery programme for 2018/19 informed by the delivery performance in 2017/18 and previous years.
- Reviewing the level of funding available for unallocated budgets and the requirement for these to be continued to be carried forward.
- Removal of budgets previously included in 2018/19 which have been carried forward from previous years where there is no expectation or plan of delivery in 2018/19.
- Of the new approved projects a realistic assessment of 2018/19 deliverability was made with delivery timeframes and budgets being moved to future years where appropriate.

This gave a proposed delivery programme for 2018/19 which had been risk-assessed as being deliverable and to which project and programme managers would be held accountable using the following actions:

- Detailed monitoring of the delivery programme through 2018/19 to ensure slippage is reported in a timely manner and a robust level of challenge is provided to programme and project managers to ensure delivery remains on track.
- Performance reports developed to enable the Capital Board to undertake this monitoring and challenge.

Following discussion and questions to officers, Members requested that a progress report on the implementation of the above arrangements be presented to the next meeting of the committee on 28 January 2019.

Resolved: - That:

(i) The briefing note and oral update be noted;
(ii) A progress report on the implementation of the above arrangements be presented to the next meeting of the Audit, Risk and Governance Committee on 28 January 2019.

(Part I – Open to Press and Public)

11. Urgent Business

There was no urgent business to be considered.

12. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 28 January 2019 at County Hall, Preston.

13. Exclusion of Press and Public

Resolved: - That the press and members of the public 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 I of Schedule 12A to the Local Government Act 1972. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information

14. Neighbourhood Wellbeing Grants

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interests in disclosing the information).

The committee considered the final report of the independent auditor appointed to carry out an investigation into the manner in which Neighbourhood Wellbeing Grants were awarded in 2016 and 2017.

The Director of Corporate Services presented the report and the independent auditors conclusions. The auditor had concluded that the approval of the projects was undertaken in accordance with the county council's decision making processes and was therefore lawful. However, the Cabinet Member should have limited their involvement to setting the overall scheme objectives and principles. Officers should have been asked to administer all other aspects of the scheme, including determining which projects were recommended for funding using pre-determined criteria.

The committee was advised that providing the names of certain individuals were redacted, the independent auditor's report could be the subject of a separate report to the Full Council on 13 December 2018.

Following debate, it was proposed that the report to Full Council should include recommendations on any necessary changes that may be required to the constitution and scheme of delegation to reflect the recommendations of the Independent auditor.

Following further discussion and questions to the officers, the following narrative statement and proposed resolution was moved:

"The report by the independent auditors, 'Veritau', presents an alarming breakdown in the proper mechanisms for controlling the county council's expenditure. The report demonstrates what can happen if a county councillor adopts the roles of officers and those officers charged with the responsibility of ensuring financial probity at all times are then unable to carry out their responsibilities effectively.

The report is a damning indictment and it is of concern that, as Cabinet Member for Health and Wellbeing, County Councillor Ali:-

- Gave instructions that all applications for a grant should be submitted only to him.
- Screened the applications for grants without any predetermined criteria for their determination.
- Did not retain a record of those projects not approved by him nor of the reasons for their exclusion.
- Changed the threshold suggested by officers for those applications requiring further checks.
- Approved grants to organisations known to him and in his own division of Nelson East and approved grants totalling £268,000 to organisations in Nelson and the surrounding area.

Committee is also concerned that in publicising the awarding of the grants, some Labour County Councillors sought to give the impression to their electorate that these grants had been given by the Labour Party and not by Lancashire County Council.

Committee therefore resolves to request the Chief Executive and Director of Resources to:

i) Report to a future meeting of this Committee setting out the responsibilities of Lancashire County Council's officers in relation to council expenditure and outlining a protocol to be followed when grants are awarded to community groups and other voluntary bodies.

ii) Report this matter to Lancashire Constabulary for investigation to determine if there has been any fraud, misconduct in public office or a criminal breach of electoral law".

It was <u>Moved</u> and <u>Seconded</u> that the proposed resolution be amended to include the words highlighted in italics:

'To request the Chief Executive and Director of Resources to:

i) Report to a future meeting of this Committee setting out the responsibilities of Lancashire County Council's officers in relation to council expenditure and outlining a protocol to be followed when grants are awarded to community groups and other voluntary bodies *with a view to reporting to Full Council in due course*.

ii) Report this matter to Lancashire Constabulary for investigation to determine if there has been any fraud, misconduct in public office or a criminal breach of electoral law.

iii) Submit the report to Full Council as a Part I item with any necessary redactions."

On being put to the vote the Motion was Carried. The substantive Motion was then put to the vote and it was therefore:

Resolved: That the report by the independent auditors, 'Veritau', presents an alarming breakdown in the proper mechanisms for controlling the county council's expenditure. The report demonstrates what can happen if a county councillor adopts the roles of officers and those officers charged with the responsibility of ensuring financial probity at all times are then unable to carry out their responsibilities effectively.

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iii) Submit the report to Full Council as a Part I item with any necessary redactions.

L Sales
Director of Corporate Services

County Hall
Preston

Agenda Item 4

Audit, Risk and Governance Committee
Meeting to be held on Monday, 28 January 2019

Electoral Division affected: None

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

Contact for further information:
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Executive Summary

The External Audit - Audit Progress Report and Sector Update 2018/19 at January 2019 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.

Robin Baker, 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 and Lancashire County Pension Fund
Year ending 31 March 2019

January 2019

Contents

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 our recent publications 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 January 2019

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2017/18 Audit – Lancashire County Council

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 for securing economy, 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 audits 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.

2017/18 Audit – Lancashire County Pension Fund

We have completed our audit of the Pension Fund's 2017/18 financial statements. Our unqualified audit opinion was issued on 31 July 2018.

Our Annual Audit Letter, summarising the outcomes of both the Lancashire County Council and the Lancashire County Pension Fund was presented to the Audit, Risk and Governance Committee on 29 October 2018.

2018/19 Audit

We have begun our planning for the 2018/19 financial year audit for both Lancashire County Council and Lancashire County Pension Fund.

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.

The Audit Plans for Lancashire County Council and Lancashire County Pension Fund will be drafted by February 2019, and will be presented to the next meeting of the Audit, Risk and Governance Committee.

Other areas

Change of Engagement Lead and Engagement Manager

Robin Baker (Director) is your new Engagement Lead. Robin replaced Mike Thomas from December 2018.

Angela Pieri (Senior Manager) is your new Engagement Manager. Angela replaced Richard McGahon in November 2018.

Handover meetings with senior officers has ensured a smooth transition for the Council.

Certification of claims and returns

We completed the certification of the Council's 2017/18 Teachers Pension Return in accordance with the procedures agreed with the Teachers Pension Agency. This certification work concluded on 29 November 2018, and there were no significant issues arising.

Meetings

Since our last update report we have held liaison meetings with senior management, finance officers, finance staff and internal audit regarding emerging developments to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events and publications to support the Council. We thank the Council for hosting one of our Local Government Chief Accountants workshops that officers are attending. Further details of our recent 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.	February 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.	April 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 local government 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

A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a ‘scoping sprint’ to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by ‘care’?

This took place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness provided her insight to spark the debate on what we really mean by ‘care’

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website

In good company: Latest trends in local authority trading companies

Page 21

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies).These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly owned | **Joint Ventures** | **Social Enterprise**

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment

  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could me more mergers and insolvencies.

- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in todays austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.

Download the report here

Links

Grant Thornton website links

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

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

https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/

https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/

Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

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, 28 January 2019

Electoral Division affected:
(All Divisions);

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

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Executive Summary

In the context of the committee's responsibility to consider updates on the Internal Audit Service's work including key findings, issues of concern and action being taken as a result of internal audit work, the committee is asked to consider the internal audit progress report and outcomes of the work for the period to 31 December 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/or heads of service who have sponsored the audit work reported here has been consulted.

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel

None

Reason for inclusion in Part II, if appropriate

N/A

Matters arising from internal audit work completed during the period to 31 December 2019

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 31 December 2019 by the Internal Audit Service under the audit plan for 2018/19.

1.2 The council's managers are 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 and these statistics are also reported here.

2 Key issues

2.1 Audit work is progressing well against an ambitious plan for the year, and is generating largely favourable assurance across a wide range of the council's control framework.

2.2 Of the 90 audits now on the audit plan, 36 (40%) are either complete or at the point where draft reports are being prepared and discussed with managers. Whilst that leaves a lot of work still to complete, it should be noted that a total of 51 audits were completed in 2017/18, and 31 in 2016/17.

2.3 The plan for the year covers each of council's four directorates and, to some degree, each of the elements of the control framework. Significant assurance has also been provided specifically by Ofsted's work on Children's Services.

2.4 Many areas of the council are subject to both improvement plans and cost saving measures (which may also seek to make improvements) but there have been no surprises for the council's managers from the audit work undertaken to date: managers understand where services, systems or processes are not yet as effectively controlled as they would wish. The audit team has generally been given access to undertake its work as planned and the work is being supported by management even in areas that are still subject to development. In some cases where managers are clearly working to improve systems or processes the auditors have assessed, or plan to assess, the adequacy of systems' design but no more, whilst their operation becomes better embedded.

2.5 The assurance provided to the end of December 2018 is largely favourable, with 22 of the 27 completed audits giving substantial or moderate assurance. No work has resulted in no assurance being given over the adequacy or effectiveness of controls.

2.6 It has already been reported that formal follow-up by the internal audit team is not being undertaken this year, but operational managers are reporting that 76% of the actions agreed to mitigate risks identified through the audit process for 2016/17, 2017/18 and the current year that were due by 31 December 2018 have been completed. Only 5% have been reported as incomplete, although responses are outstanding for a further 6%, amounting to 33 in total.

The council's financial position

2.7 The single greatest issue for the council as a whole for some years has been its financial sustainability. Whilst the council's financial position has not yet been fully stabilised, over the course of the last year considerable work has been done to improve it and the full Council will consider and set the council's budget for 2019/20 in February 2019.

2.8 In April 2018 the difference between the council's funding and its expenditure for 2019/20 was forecast to be £88.6 million, and for 2020/21 the gap was £98 million.

2.9 In October 2018 a forecast funding gap of £60.6 million remained for 2019/20 and £110.7 million for 2020/21, at which point the level of reserves remaining would be insufficient to bridge the gap. All of the council's services therefore undertook a service challenge review process with the combined aims of maintaining or improving the quality of services whilst also reducing costs. To support this, services' costs were benchmarked against other county councils and were actively encouraged to speak to other high-performing councils and organisations to understand the differences in their costs and outcomes, and how they could be improved.

2.10 On 3 December 2018 Cabinet considered £77.2 million of savings proposals resulting from the 43 service challenges, along with the impact of some additional central government funding, primarily to support the national pressures on adults' and children's social care, and an updated assessment of demand and cost pressures. The funding gap now projected for 2019/20 has therefore fallen from £60.6 million to £14.6 million and this can be funded from reserves.

2.11 It is now anticipated that available reserves will be more than sufficient to support the council's expenditure until at least 2022/23: the forecast gap in funding has now fallen from £135 million to £46.1 million by 2022/23. However work is continuing under the second phase of the service challenge process to identify further savings and address the structural funding gap to reduce the need for support from reserves in 2020/21 and beyond and so that a financially sustainable position can be achieved.

3 Progress against the internal audit plan

3.1 Despite making a number of amendments to the original plan for the year, there remain 90 audits on the plan (section 7 below provides more details). This is a considerably larger plan than those followed in the last two years.

3.2 These have progressed as shown in the table on the next page, and the figures presented to the committee in October 2018 are also provided for comparison.

3.3 Summaries of the findings of the 11 audits completed and reported during the last quarter are reported in section 5 below.

3.4 Amendments to the plan during the year to date are set out in section 7 below.

Stage of audit process	December 2018		September 2018	
	Number	Percentage	Number	Percentage
Complete and reported	27	30%	16	18%
At draft report stage	9	10%	7	8%
Progressing	32	36%	29	32%
Not yet started	22	24%	38	42%
Total number of audits	**90**	**100%**	**90**	**100%**

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

- Ordinary residence (for the purposes of adult social care)
- Third party top up payments (for the purposes of adult social care)
- Contract monitoring: direct payment support service
- Children's Services' in-service audit framework
- Section 17 payments to children with disabilities
- Thematic audit of schools' payroll
- Operation of the Highways Asset Management System (HAMS)
- Highways Asset Management System (HAMS) improvement programme
- Customer Access Service business continuity

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 31 December 2019 is provided in the tables below.

2018/19 assignments relating to:	Total	Assurance provided			
		Substantial*	Moderate*	Limited	None
Governance	0				
Business effectiveness	1		1		
Service delivery	19	7	10	2	
Service support	3	1	1	1	
Business processes	4	2		2	
2018/19 assignments: total to date	**27**	**10**	**12**	**5**	**0**
	100%	**37%**	**44%**	**19%**	**-**
2017/18 assignments: total	**51**	**5**	**34**	**12**	**0**
	100%	10%	67%	23%	-
2016/17 assignments: total	31	3	24	4	0
	100%	10%	77%	13%	-

* For the purposes of comparison, where full assurance has been given in previous years this has been equated to substantial assurance in the current

year; and where substantial assurance has been given previously, this is now recorded as moderate.

4.2 It can be seen that, at this point and allowing for the possibility that the change in categorisation of assurance has resulted in a higher proportion of the most favourable opinions being given, a high percentage of audits are providing favourable assurance.

4.3 As the report accompanying the audit plan for the year made clear, there are some areas of the council's operations that are still subject to significant improvement programmes. However arguably the most important of these has been children's social care services. Whilst less internal audit work has been undertaken on Children's Services than their importance might warrant, Ofsted's work and its report in August 2018 give some strong assurance and indicate that clear improvements have been made. Although further improvement is still regarded as necessary, Ofsted's report has been interpreted by the former interim executive director of education and children's services as equivalent to 'satisfactory' or, moderate in the Internal Audit Service's classification.

4.4 The table below provides a full list of the assurance provided during the year to date and more details of each of the audits completed over the period since the last report to the committee are set out in section 5.

Control area: 2018/19	Assurance	Reported to committee
Business effectiveness		
Communication with staff across the council	Moderate	January 2019
Service delivery: Adult Services and Health & Wellbeing		
Medication practices across Disability Services	Limited	January 2019
Supervision and support to front-line in-house day services care providers in Disability Services	Moderate	October 2018
Supervision and support to front-line social workers in the Patient Safety and Safeguarding Service	Limited	January 2019
Contract monitoring: reablement service	Moderate	October 2018
Contract monitoring: crisis support service	Moderate	October 2018
Contract monitoring: sexual health service	Substantial	October 2018
Public Health expenditure	Substantial	January 2019
Payroll claims and recovery of over/ underpayments to staff in Disability Services	Moderate	October 2018
Service delivery: Education & Children's Services		
External residential placements process	Moderate	October 2018
Contract monitoring: external residential placements	Moderate	October 2018
Special guardianship orders (phase one/ consultancy)	Moderate	January 2019
Schools' Financial Value Standard (SFVS) self-assessments	Moderate	July 2018

Control area: 2018/19	Assurance	Reported to committee
Service delivery: Growth, Environment, Transport & Community Services		
Concessionary travel: NOW Card	Substantial	January 2019
School bus passes	Substantial	January 2019
Contract monitoring: highways line-marking contract	Moderate	January 2019
The crisis support scheme	Substantial	January 2019
Lancashire Renewables: governance and decision making	Moderate	October 2018
Lancashire Renewables: expenditure	Substantial	October 2018
Contract monitoring: waste landfill	Substantial	July 2018
Service support		
Recovery of costs/ available income from partner organisations	Limited	July 2018
'Step up to Social Work' contract	Moderate	January 2019
Procurement of the new corporate banking contract (phase one/ consultancy)	Substantial	October 2018
Business processes		
Information management: information storage and retention	Limited	January 2019
Oversight of payroll payments	Limited	July 2018
Information management: compliance with the new General Data Protection Regulations	Substantial	October 2018
Financial processes: VAT processing	Substantial	July 2018

4.5 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.

4.6 As reported in October, Deloitte has completed an audit of the organisation's readiness for the introduction of the General Data Protection Regulations, but not yet the last audit relating to 2017/18, on investment operations. LPPL expects to take this to its own audit committee in February 2019 and it will be reported to this committee in May 2019, along with any other work completed by then under the plan for 2018/19.

Control area: 2018/19	Assurance
Lancashire Pension Fund	
GDPR readiness assessment	Effective with scope for improvement (reported to committee in October 2018)

4.7 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

4.8 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. However none has been undertaken in the period since the committee's last meeting.

4.9 It was previously reported that approximately 700 outcome claims will be audited for the Troubled Families Unit as required by the Ministry for Housing, Communities and Local Government's Troubled Families Unit during the current year. However the council's Troubled Families Unit has reassessed the numbers of claims it is likely to make and it is now likelier that this number will be spread over the period to 31 March 2020.

4.10 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 (amounting to £38.820 million in total).

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.

Communication with staff across the council (Moderate assurance)

5.2 The dissemination of corporate information down to staff at all levels is necessary to ensure staff are aware of corporate priorities and key messages, and feel part of their team and the wider council. Managers need to be aware of issues arising within their teams if they are to manage risk effectively and make timely decisions, particularly regarding matters of strategic or political importance. However a single uniform arrangement would not be appropriate for communication across the whole organisation as the workforce is large, dispersed and varied.

5.3 We tested a relatively restricted sample but found that managers are clear about their organisational structures and the staff they are responsible for. Staff and managers feel comfortable raising matters of importance with their line managers, who are generally approachable, available and responsive to the issues raised.

5.4 Formal team meetings take place at management levels on a regular basis. Team meetings with front line staff do not always take place but, where they do, are generally two-way and participative, and participants feel comfortable raising any issues. There is variable practice in relation to formally documenting the meetings.

5.5 There is also variable practice for the provision of formal documented one-to-one meetings with line managers, although this is likely to improve if the new performance engagement process is adopted and embraced across the organisation.

Medication practices across Disability Services (Limited assurance)

5.6 Medication is managed within three service areas within the Adult Disability Service: Day Services, Short Break Services and Domiciliary Services. Each service area has a medication handling and administration policy which meets the requirements of National Institute for Clinical Excellence (NICE) guidance and are accessible to staff either electronically or in hard copy as appropriate.

5.7 Service users in Day Services and Short Break Services normally bring in sufficient medication for the duration of their stay, whilst medication for service users in Domiciliary Services is held by the service. Managers and staff are responsible for ensuring that all service users are supported to maintain their health and have access to treatment should they require it.

5.8 Managers ensure that all staff receive appropriate training to support service users in administering their medication and that appropriate records have been maintained, although we found some delays and absences in undertaking refresher training or completing the annual observation checks. We found examples of incomplete medication records and inconsistencies between medication records and support/ care plans, although we found no examples of medication maladministration. In a small number of instances medication had not been stored in its original container or did not contain a legible label.

5.9 Although audits are undertaken by team managers periodically, these are not always conducted effectively or recorded, especially in relation to the proper completion of the medication administration record (MAR) charts, as errors we identified during our audit process had not previously been detected by managers.

Supervision and support to front-line social workers in the Patient Safety and Safeguarding Service (Limited assurance)

5.10 Controls to ensure staff are supported and supervised in maintaining their professional requirements and personal development are adequately designed in general but inconsistently applied.

5.11 There are examples of good practice across the service including various forums to provide support and to discuss experiences and challenges, review performance and to learn. There are comprehensive records of personal supervision in the majority of cases and actions are set and followed up.

5.12 The policy applicable to Adult Social Care services also sets the framework for an effective and consistent approach to the supervision of staff in two of the Patient Safety and Safeguarding Service teams in the Public Health service: the Quality Improvement team, and Safety Specialist Community Based Support Safeguarding team. Nurses working in the Infection Prevention and Control Team and registered with the Nursing and Midwifery Council are also required to undertake continuing professional development to maintain their registration but are not covered by any specific supervision policy.

5.13 Where the Adult Social Care policy is applicable, it is not consistently applied and the standard of supervision varies. Comparison of a selection of formal supervision records with the policy's requirements highlighted discrepancies in terms of the frequency of appropriate one-to-one supervisions, the maintenance of up to date supervision contracts (where applicable), and the absence of processes for management to monitor the quality and frequency of supervision. Further, social workers in their 'assessed and supported year in employment' (ASYE) are subject to an additional supervision framework but one of the two ASYE social workers in our sample was not receiving the necessary supervision and support.

5.14 The other two teams in the Patient Safety and Safeguarding Service do not require specific professional supervision but it is expected that they will engage with the council's new performance engagement process. This will facilitate appropriate support for all employees and is intended to ensure that all have the right skills to achieve their work objectives and feel supported in their personal and professional development and wellbeing.

Public health expenditure (Substantial assurance)

5.15 We have provided assurance that the ring-fenced grant to support the council's public health provision has been spent in accordance with guidance provided by the Department of Health.

5.16 There are a number of areas where the documentary evidence underpinning the charges to the Public Health grant could be enhanced to document more clearly the rationale for assessing specific expenditure items as eligible, or to support apportioned charges. However there are appropriate explanations for the items we queried and we have not identified any inappropriate use by the council of the public health grant funding.

Special Guardianship Orders (Moderate assurance over the controls' design)

5.17 The Special Guardianship Regulations 2005 allow close relatives of children needing permanent care outside their birth family to seek parental responsibility under a special guardianship order. The council has approximately 900 children in 600 special guardianship placements.

5.19 Prospective special guardians are means-tested to establish the financial resources they need, and conditions for these financial assessments are set out in statutory guidance. Since August 2018 a fostering and adoptions team officer has carried out these assessments, rather than the case social worker, to ensure that the conditions are applied equitably and consistently.

5.20 A large backlog of financial assessments has built up since then, resulting in financial offer letters being issued late and missed court hearings. Additional resources from the welfare rights team and business support are being used to clear the backlog, and it is intended that this will be cleared by the end of January 2019. To meet tight court deadlines, prospective special guardians have in some cases been informed of their financial support package before the supporting evidence has been fully checked but they have been told that the figures are provisional and may be altered.

5.21 We have carried out an initial assessment of the adequacy of the new control framework, and further controls have been identified to enhance it. We will audit compliance against the framework in the second half of 2019/20, to give time for the new controls to become fully operational.

Concessionary travel: NOW Card (Substantial assurance)

5.22 The concessionary travel scheme (NoWcard) provides free, off-peak local bus travel to older and eligible disabled people. It is operated by Lancashire and Cumbria County Councils, Blackburn with Darwen and Blackpool Councils and the district councils. The county council, as the travel concession authority, administers the statutory scheme, and there are around 340,000 active cards.

5.23 Up-to-date policies and procedures are in place that comply with national scheme requirements and ensure local compliance with the scheme, including age and disability eligibility criteria. A NoWcard webpage describes the application process and gives guidance and advice to applicants. Applications are normally submitted by post, but can also be completed by telephone and an online application process is being developed. Users' eligibility for cards is correctly and consistently assessed and decisions are supported by evidence. There is an effective system for reporting and blocking the use of lost, stolen or damaged cards.

5.24 Monthly performance data is reported to inform decision-making within the council and information is shared with partners relating to operational, administrative and financial issues. Information retention periods are complied with but user access to IT systems and network files should be reviewed to ensure that access is restricted to individuals with a valid business need.

School bus passes (Substantial assurance)

5.25 The Education Act 1996 requires the council to ensure that suitable home to school travel arrangements are made where necessary to facilitate attendance at school by eligible children. Eligibility is determined by walking distance from home to school, unsafe routes, family income, special educational needs and disability or mobility problems.

5.26 The council's provision is set out in its 'Home to mainstream school transport policy 2018/19' which is up to date and complies with the requirements of the Education Act. Guidance on entitlement, eligibility and application process is published on the council's website and the scheme is publicised alongside the school admissions process. Applicants' eligibility is correctly and consistently determined in line with policy. Applications, relevant criteria and decisions are recorded and appeals are considered initially by an officer not involved in the process, and subsequently by the Student Support Appeal Committee.

5.27 Paper records for current applications are securely stored but the Impulse Education system contains personal data, and system user access permissions should be reviewed as some officers no longer in the team still have access to the system.

5.28 Payments for lost or damaged cards are entered onto Oracle financials, where they are monitored. Reminders are issued for overdue payments and debt is then pursued through the council's debt collection process.

5.29 The council works closely with operators to share information and contractual obligations, for example through the Driver's Handbook issued to all drivers. Some operators do not submit, or are late in submitting, signed confirmation that they have received and distributed the council's Safeguarding and Contract Compliance document, although this is an annual requirement. Monthly performance statistics are reported although these should be reassessed to determine whether they continue to meet senior managers' needs.

Contract monitoring: highways line-marking contract (Moderate assurance)

5.30 A framework agreement is in place with three contractors, covering the application, installation, maintenance and removal of marking materials, surfacing and studs to roads. It addresses the contracting procedure, terms and conditions, rates schedule, specifications and standards, and requires warnings to be issued for poor performance, which can lead to contract termination.

5.31 Work orders raised on the Highways Asset Management System (HAMS) are clear and concise. The framework agreement should be used to validate invoices prior to payment and to facilitate quality checks and, where work schedules were provided with invoices, we confirmed that the charges agree to framework rates. However four out of ten invoices we tested were not supported by a work schedule and one did not match the requisition order so it is unclear how, or if, the invoice total was validated prior to payment.

5.32 The checks required on 10% of works against the specification and quality standards do not always take place and, although inspections are recorded on HAMS, there is insufficient detail to capture the work done and its findings. Revised checks have now been developed which should help improve quality checking and invoicing in future. Contractors are notified of unsatisfactory work and asked to rectify it, and wider concerns over performance are managed by the Procurement Service's contracts team. Sanctions can be applied and action has been taken to address repeated performance issues in one case, including dispute resolution meetings. The contractor involved has withdrawn from the contract.

The crisis support scheme (Substantial assurance)

5.33 The crisis support scheme is designed to assist the most vulnerable people in meeting short-term needs and to promote their continued independence within the community. The scheme focuses on three key areas of provision: food, heating and essential household items. There is an annual budget of £500,000 and during 2017/18 the council received 5,364 referrals, and granted 2,015 awards.

5.34 The scheme is well controlled to ensure that the service's objectives are met. There is an overarching crisis support policy, although this needs to be updated, together with detailed process guides for the administration of the scheme. Eligibility checks are undertaken, and the identity, financial status and circumstances of applicants is confirmed before support is granted. This is limited per person or family, in line with the policy. Customers are signposted to additional support from groups within the community, including Citizens Advice, social care and the Lancashire Wellbeing Service.

5.35 The scheme is delivered by external providers and there are contracts in place with clear service specifications and pricing mechanisms. Providers' invoices are reconciled prior to authorisation for payment, and there is regular monitoring of expenditure on the scheme. There is regular performance monitoring and performance indicators are reported to senior management.

'Step up to Social Work' contract (Moderate assurance)

5.36 The 'Step Up to Social Work' programme is a post graduate social work programme aimed at high calibre graduates entering the social work profession. The council is the lead authority in a regional partnership with Blackpool and Blackburn with Darwen Councils and Manchester Metropolitan University. The fifth cohort of 16 students started in January 2018, funded by a grant of £581,000 from the Department for Education. The partnership complies with the grant conditions, and an annual grant statement of usage is signed and submitted by the council's director of finance.

5.37 There is a comprehensive process for selecting and appointing applicants including rigorous assessments and verification of qualifications. Student progress is reviewed by placement mentors and the university. All placements for the fourth cohort were successful and a sample was reviewed by the Practice Assessment Panel to confirm their fitness for practice. Retention and progression are monitored and reviewed as part of the 'assessed and supported year in employment' programme and thereafter by Children's Services.

5.38 A procurement exercise was not conducted before the county council appointed the university to provide training for cohorts 4 and 5, although the Public Contracts Regulations 2015 give flexibility on how such services can be procured. The Procurement Service has advised that, for the sixth cohort, a direct award can be made by the head of service and recorded as a delegated decision. This will be added to the contracts register, and the Procurement Service will be involved in future procurement decisions.

Information management: information storage and retention
(Limited assurance)

5.39 The council has legal and regulatory responsibilities in relation to information governance under the Data Protection Act 2018, the General Data Protection Regulations (GDPR) and the Freedom of Information (FOI) Act 2000. Amongst other things these require records to be stored securely in a way which facilitates any searching, and requires records to be retained for specified periods.

5.40 An electronic records management system (Documentum) has been implemented which is used by some services but others still save records outside this system on shared and local drives. The Records Management Service has produced policies and guidance in relation to information storage and retention and these are available on the intranet. However there is no mechanism to monitor and report corporate adherence to these requirements, and services are not familiar with the guidance.

5.41 Information which has exceeded the legal retention period should be deleted but within a sample of nine teams we examined no exercise is undertaken periodically to purge information. Filing systems in some teams do not allow information which has exceeded the retention period to be quickly identifiable although in the sample of teams we examined folders are set up in a way which facilitates searching for information when required, for example to address FOI requests. The Documentum system has inbuilt controls to manage records retention but resource constraints within the Core Systems team mean that this system must be implemented on a project by project basis.

6 Managers' progress in implementing actions

6.1 As at the end of December 2018, 308 actions agreed following audit work during 2016/17, 2017/18 and 2018/19 were due for completion. Their current status is set out in the table below.

Numbers of actions agreed during 2016/17, 2017/18 and 2018/19							
	September 2018		**December 2018**				
	Total		**Total**		**Risk rating**		
					High	Medium	Low
Complete	190	70%	230	76%	18	118	94
Superseded	38	14%	39	13%	6	19	14
Incomplete	22	8%	16	5%	3	10	3
Awaiting responses	20	8%	17	6%	1	11	5
Total	**270**	**100%**	**302**	**100%**	**28**	**158**	**116**

6.2 The process of following up actions has caused some of them to be questioned and rejected, sometimes in favour of an alternative, sometimes as no longer relevant, or occasionally as too ambitious (in particular where they require amendments to software and systems).

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 services are actively addressing the issues raised. In some cases a service, system or process has changed or is being changed to the extent that the actions agreed are no longer relevant. This is the case for example in relation to actions to improve the process by which young adults make the transition from receiving children's services to accessing adults' services: five actions have been superseded because the process is subject to a wholesale review and redesign.

7 Amendments to the audit plan

7.1 The head of internal audit, chief executive and director of resources, and the director of finance, have worked to reassess the council's framework of internal control and the audit plan for the year. This has also been discussed with the executive directors and will inform the audit plan for 2019/20 too. In addition and as would be expected as the year progresses, a number of audits have been added to the plan, removed from it, or amended. These changes are set out below.

Work carried forward from 2017/18

7.2 A number of audits were incomplete as the outcomes of the plan for 2017/18 were reported in April and July 2018 and were therefore carried into this year's plan. These are as follows and are all now complete:

- Communication with staff across the council
- Contract monitoring: reablement service
- Contract monitoring: crisis support service
- Contract monitoring: sexual health service
- Contract monitoring: external residential placements
- Contract monitoring: highways line marking
- Contract monitoring: waste landfill
- Recovery of costs/ available income from partner organisations
- Oversight of payroll payments

New work added to the plan

7.3 Additional audit work has been added to the plan and the following work is already complete:

- Verification that public health funding is being spent on appropriate public health functions
- Special Guardianship Order financial support (phase one of the audit only)

7.4 Other new work is progressing or is still being planned:

- Children's services improvement plan
- Hospital discharge and the use of short and long term residential care
- HAMS improvement plan
- Accounts receivable central compliance testing
- Accounts payable central controls
- General ledger compliance testing

Amendments to work on the plan

7.5 The following audits have been amended:

- Work to assess the council's compliance with its public service vehicle operator license conditions has been refocussed to address compliance with its heavy goods vehicle operator licence conditions instead
- The full audit of Children's Services' in-service audit framework has been split and only the first phase of the audit will take place this year, to assess the adequacy of the system's design. Compliance testing of the new systems' effectiveness in operation will take place in 2019/20.
- Work on safeguarding vulnerable adults to address reported concerns will be re-focussed and will provide support to ensure the adequacy of the

system's design. Compliance testing of the new system's effectiveness in operation will take place in 2019/20. The scope of this audit has also been amended to focus solely on adults' services but will now address the whole end-to-end process following work by an external consultant that has reconfigured relations between the Customer Access Service, multi-agency shared hub (MASH) and operational services.

- Work on risk management will be restricted to compliance testing only, rather than another full audit, since we gave substantial assurance in relation to the process by which the council's risk register is prepared in 2017/18.

Audits removed from the plan

7.6 The following audits have been removed from the plan:

- The audit of educational off-site visits has been deferred to 2019/20 whilst some changes are made to the operation of this service.
- Further compliance testing of controls over the council's accounting for VAT has been removed from the plan for the current year since work under the 2017/18 plan was reported only in April 2018 and resulted in substantial assurance.

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.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 28 January 2019

Electoral Division affected:
(All Divisions);

Accounting Policies used in the Preparation of the Statement of Accounts 2018/19
(Appendix 'A' refers)

Contact for further information:
Neil Kissock, (01772) 536154, Director of Finance,
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Executive Summary

The accounting policies to be used in preparing the council's 2018/19 statement of accounts are set out in Appendix 'A'.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) has adopted International Financial Reporting Standard (IFRS) 15 – 'revenue from contracts with customers' and IFRS 9 – 'financial instruments' with effect from 2018/19. The accounting policies have been amended to reflect these changes to the Code.

The specific changes relate to the accruals of income (page 2) and financial instruments sections (pages 12-16). To highlight the changes for the purposes of this report, additions to the accounting policies from the previous year are shown in italics and deletions are shown with a strike-through at Appendix 'A'.

Recommendation

The Audit, Risk and Governance Committee is asked to approve the accounting policies, as set out in Appendix 'A', incorporating the identified changes.

Background and Advice

The chief finance officer is responsible for the preparation of the council’s statement of accounts in accordance with proper accounting practices, for each financial year ending 31 March. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA and The Local Authority (Scotland) Accounts Advisory Committee (LASAAC)) supported by International Financial Reporting Standards.

In preparing the statement of accounts, the chief finance officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently.

Lancashire County Council

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting the financial statements.

IFRS 15

International Financial Reporting Standard (IFRS) 15 – 'revenue from contracts with customers' replaces International Accounting Standard (IAS) 11 – 'construction contracts' and IAS 18 – 'revenue and related interpretations'.

The objective is to provide useful information to users of the financial statements regarding the nature, amount, timing and uncertainty of revenue from contracts, as revenue is only recognised as and when the performance obligations of the contract are satisfied.

The principle in IFRS 15 for local authorities is that they should recognise revenue from contracts to reflect the transfer of goods or services to customers and the amount to which the authority expects to be entitled for that transfer. It excludes leases, financial instruments, insurance contracts, council tax and non-domestic rates income.

This standard is anticipated to have a limited impact on the council's accounts.

IFRS 9

IFRS 9 - 'financial instruments' replaces IAS 39 – 'financial instruments: recognition and measurement'. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The change may potentially result in more investments classified as 'fair value though profit and loss' where any gains or losses will impact on the general fund reserves of the council as they arise. Previously any changes in the fair value of these investments were only recognised in the general fund when the asset was sold. Additionally, any potential losses on investments are also to be charged to the revenue account in case actual losses are incurred in the future.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Failure to complete the statement of accounts in line with the CIPFA Code of Practice may result in an adverse opinion from the council's external auditors.

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

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

General principles

Basis of preparation

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

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

Events after the reporting period

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

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

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

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

Group accounts

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

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

Pooled budgets

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

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

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

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

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

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

Accounting policies for income

Accruals of income

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

- ~~Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;~~
- ~~Income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;~~
- *Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;*
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council tax and non-domestic rates income

Both council tax and non-domestic rates are collected by the 12 Lancashire district councils (billing authorities) on behalf of the County Council.
The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. Regulations determine the amount of council tax and non-domestic rates that must be included in the Council's general fund, therefore, the difference between the income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund is charged to the collection fund adjustment account through the movement in reserves statement.

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

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

The net retained levy for the Council is shown within non-domestic rates retention income in the comprehensive income and expenditure statement.

Government grants and other contributions

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

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

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

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

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

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

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

Accounting policies for costs

Accruals of expenditure

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

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest payable on borrowings is accounted for as expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where expenditure have been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

Charges to revenue for non-current assets

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Employee benefits

Employee benefits payable during employment

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

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

Teachers' pension scheme

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

Lancashire County Pension Fund

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

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

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

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price;
- Property – market value.

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

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

Discretionary benefits

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

Long term contracts

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

Overheads and support services

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

Private finance initiative (PFI)

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

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

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

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

Deductions from the unitary payment

The PFI contract provides for deductions from the unitary payment in the case of sub-standard performance or when the facilities are unavailable.

Deductions for sub-standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from unavailability of the property are apportioned pro rata to the proportions of the service and property elements of the unitary payment:

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

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

Provisions, contingent assets and contingent liabilities

Provisions

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

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

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

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

Contingent assets

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

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

Contingent liabilities

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

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

Revenue expenditure funded from capital under statute

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

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

Value added tax (VAT)

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

Accounting policies for assets and liabilities

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category includes cash on call and 3 months or less term deposit and also instant access money market funds.

Financial instruments

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

Financial assets

Financial assets are classified ~~into three types:~~ *based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:*

- *Amortised cost;*
- *Fair value through other comprehensive income (FVOCI), and;*
- *Fair value through profit or loss (FVPL).*

Financial assets measured at amortised cost

Where the Council's business model is to hold investments to collect contractual cash flows, the financial assets are classified as amortised cost.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

There is no recognition of gains or losses on fair value until reclassification or derecognition of the asset.

Financial assets measured at fair value through other comprehensive income (FVOCI)

The Council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investments requirements while ensuring the Council is not subject to a high degree of credit risk. These assets are measured at FVOCI.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest *receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.*

For these financial assets held by the Council, this means that the amount presented in the balance sheet is the fair value of the financial instrument and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The fair value measurements of the financial assets are based on the following techniques:

- *Instruments with quoted market prices – the market price;*
- *Other instruments with fixed and determinable payments – discounted cash flow analysis.*

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- *Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;*
- *Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;*
- *Level 3 inputs – unobservable inputs for the asset.*

Any changes in the fair value of the assets are charged to other comprehensive income and expenditure in the comprehensive income and expenditure statement and balanced by an entry in the financial instruments revaluation reserve.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the financial instruments revaluation reserve.

Financial assets measured at fair value through profit of loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair value gains and losses are recognised in the surplus or deficit on the provision of services as they arise.

The fair value measurements of the financial assets are based on the following techniques:

- *Instruments with quoted market prices – the market price;*
- *Other instruments with fixed and determinable payments – discounted cash flow analysis.*

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- *Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;*

- *Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;*
- *Level 3 inputs – unobservable inputs for the asset.*

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

~~Loans and receivables~~

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

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

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

~~Available for sale assets~~

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

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

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

~~Values are based on the following principles:~~

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

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

~~and expenditure statement, along with any net gain or loss for the asset accumulated in the available for sale reserve.~~

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

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

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

~~Fair value through profit and loss~~

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

~~Fair value through profit and loss assets are initially recognised on the balance sheet and subsequently measured and carried at fair value.~~
~~Any gains or losses that arise on the de-recognition of the assets are credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Any unrealised gains and losses are also credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Unrealised gains and losses are the amounts that arise through the change in market value of financial instruments before they mature or are sold.~~

~~Impairment of financial assets~~

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

Expected credit loss model

The Council recognises expected credit losses on its financial assets held at amortised cost or FVOCI, (subject to materiality) either on a 12-month or lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased *significantly or remains low, losses are assessed on the basis of 12-month expected losses.*

Lifetime losses are recognised for trade receivables (debtors) held by the Council.

Financial liabilities

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

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

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

Where premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years.

Property, plant and equipment

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

Recognition

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

Componentisation

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

Measurement

Assets are initially recognised at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

Disposals and non-current assets held for sale

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

Depreciation is not charged on assets held for sale.

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

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

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

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

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

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

Heritage assets

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

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

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

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

Investment property

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

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

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

Leases

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

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

Reserves

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

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

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

Schools

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

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

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

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

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

Agenda Item 7

Audit, Risk and Governance Committee
Meeting to be held on Monday, 28 January 2019

Electoral Division affected: (All Divisions);

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

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Executive Summary

This report provides a review of treasury management activity for the period October to December 2018, including a summary of the:

- Economic conditions;
- Borrowing;
- Investment; and
- Actual results measured against the treasury management indicators

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. To enable the committee to fulfil this role, the committee receives regular reports on treasury management issues and activities. Reports on treasury management 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 council's treasury management for the period October to December 2018. This report outlines the borrowing and investment activity during the period and sets this against the economic background including risk management strategies to protect the capital value of the council's reserves and balances.

Consultations

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

Lancashire County 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 and the associated risks, against which activity during the period is reported.

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
Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice	2011	Paul Dobson (01772)/534725

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Treasury Management Activity
October to December 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.

A report on the treasury management activity in 2018/19 was presented to the Committee in October which covered the year to 30 September. This report provides a brief update on treasury management activity between 1 October and 31 December 2018.

Economic context

A key factor facing the economy continues to be the uncertainty arising from the unknown impact of the UK's withdrawal from the European Union and continuing potential for an increased trade war between the worlds' two largest economies namely the USA and China.

Economic growth has continued to be positive with the final estimate of Quarter 3 GDP published on 24 December by ONS showed the UK economy expanded by 0.6% over the quarter and 1.5% year-on-year

At the same time, inflation has remained above the Bank of England's 2% target rate. However, CPI in August was 2.7% which fell to 2.3% in November. As a consequence of these economic factors, the Bank of England's Monetary Policy Committee (MPC) has kept the base rate at 0.75%.

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

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. Although there was no further increase in 2018, 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 their 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.

Investment activity

Investments at 30 September totalled £450.7m and consisted of £171.8m in bank and local authority deposits and £278.9m in corporate and government bonds. The following table shows the investment activity between 1 October and 31 December.

Bank and Local Authority Deposits	Call accounts	Fixed	Structured	Total
	£m	£m	£m	£m
1 October 2018	2.5	166.3	0.0	168.8
Maturities	-	(242.0)	-	(242.0)
New Investments	77.0	168.0	-	245.0
31 December 2018	79.5	92.3	0.0	171.8
Bonds	LA Bonds	Gilts	Others	Total
	£m	£m	£m	£m
1 October 2018	33.1	241.7	129.9	404.7
Maturities/sales	(0.5)	(447.1)	(76.4)	(524.0)
New Investments	0.4	332.3	65.5	398.2
31 December 2018	33.0	126.9	119.0	278.9

Within the period, there has been a reduction in the level of investments held. It was anticipated that the level of investments would 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 period also saw some significant volatility in the price of the Gilts held. This resulted in the opportunity being taken to sell some of the holdings to enhance the overall return on the investments.

The current rate of return on the investment portfolio measured by Arlingclose is 1.69% 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 October and 31 December.

Borrowing	PWLB Fixed	PWLB Variable	LOBO*	Police, Fire & Lancashire District Councils	Other Local Authorities	Total
	£m	£m	£m	£m	£m	£m
1 October 2018	213.1	125.8	50.0	89.7	628.8	1,107.4
New Borrowing	15.0	0.0	0.0	118.5	220.0	353.5
Maturities	(7.5)	0.0	(50.0)	(162.6)	(216.5)	(436.6)
31 December 2018	220.6	125.8	0.0	45.6	632.3	1,024.3
PFI Liability						152.0
Total Debt						1,176.3

*Lender option borrower option loan

Total borrowing at the end of December was £1.176bn including the financing of £152m of assets through remaining PFI schemes. The outstanding borrowing has reduced by £83.1m in the period.

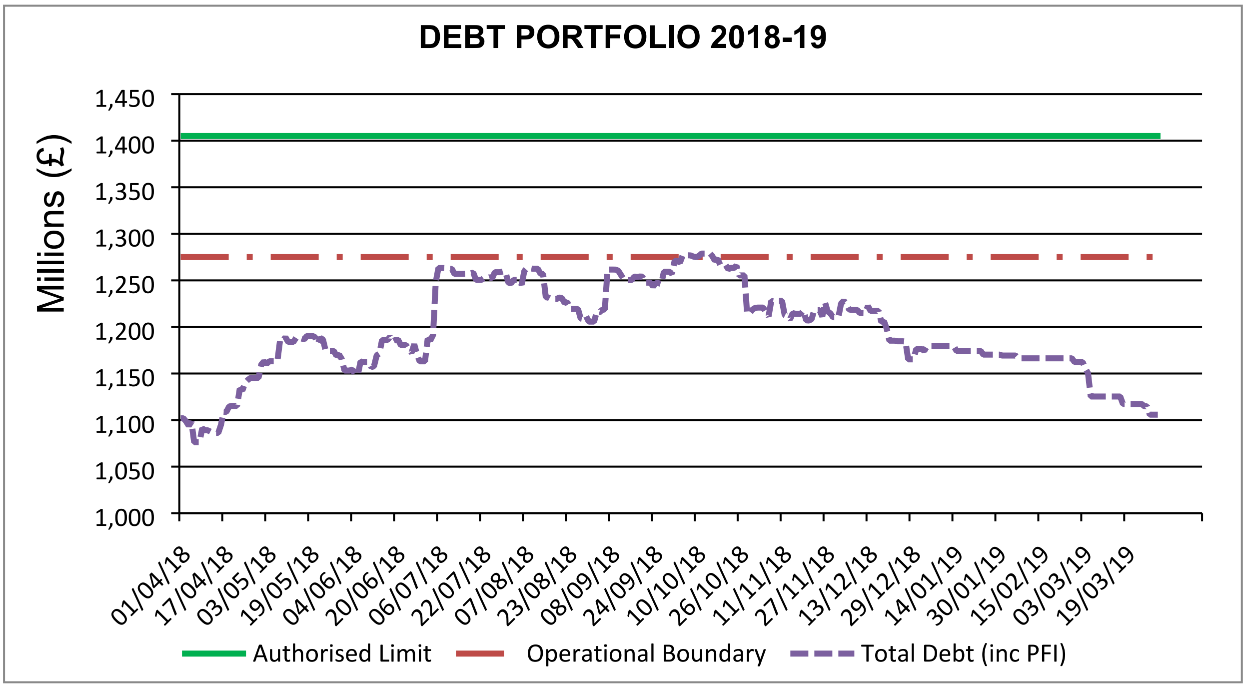
The main reason for the reduction in the level of debt held in the period was the repayment of the council's LOBO loan.

The actual borrowing at 31 December is higher than the amount required, as defined by the Capital Financing Requirement (CFR). However within the actual borrowing at 30 December there is an estimated £137m which relates to debt held on behalf of other local authorities and premiums. By excluding these from the total debt, as permitted by the Prudential Code, the debt is below the CFR.

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 31 December 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 1.77%. 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 £21m 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 £10.3m in the MRP charge
- Investment income has increased by a net £10.5m
- Reduced net interest payable of £0.2m due to debt refinancing

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 December 2018.

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	1,024
Other long term liabilities (PFI schemes)	185	152
TOTAL	1,405	1,176

3. Operational boundary for external debt	Limit £m	Actual £m
Borrowing	1,115	1,024
Other long term liabilities (PFI schemes)	160	152
TOTAL	1,275	1,176

4. Capital Financing Requirement to Gross Debt	Limit £m	Actual £m
Borrowing Capital Financing Requirement	953	903
Estimated gross debt	1,095	1,024
Debt to Capital Financing Requirements	115%	113%

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 transferred debt, the shared investment scheme and borrowing for premiums form part of the borrowing but they do 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	5.1	2.4

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	10.7
Net Interest Payable – Variable Rate	5.0	(0.2)
1 year impact of a 1% rise	10.0	2.3

2. Maturity structure of debt

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

	Upper Limit	Actual
Under 12 months	75%	9%
12 months and within 2 years	75%	53%
2 years and within 5 years	75%	15%
5 years and within 10 years	75%	6%
10 years and above	50%	18%

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	425	338

4. Minimum Average Credit Rating

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

	Benchmark	Actual
Average counterparty credit rating	A+	AA

Audit, Risk and Governance Committee
Meeting to be held on Monday, 28 January 2019

Electoral Division affected:
(All Divisions);

Treasury Management Strategy and Investment Strategy 2019/20
(Appendices 'A' and 'B' refer)

Contact for further information:
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Executive Summary

This report proposes at appendix 'A' the treasury management strategy for 2019/20. The treasury management strategy is required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice to be approved annually. It includes the council's borrowing and investment strategies for treasury management purposes and the treasury management prudential indicators which seek to ensure that borrowing levels remain both sustainable and affordable.

The non-treasury investment strategy is a new requirement under the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance issued in 2018. This covers investments which are not held for treasury management purposes but are held primarily or partially to generate a profit and is proposed at appendix 'B'.

Recommendation

The Audit, Risk and Governance Committee is asked to recommend that Full Council approves the treasury management strategy and the non-treasury investment strategy for 2019/20, set out at appendices 'A' and 'B' respectively.

Background and Advice

Treasury management is the management of the council's investments and cash flows, its banking, money market and capital market transactions; it also includes the effective control and management of the risks associated with these activities, ensuring that the council gets the best performance within acceptable risk parameters.

The treasury management strategy at appendix 'A' sets out the council's approach to ensuring the security and liquidity of its investments, whilst having regard to investment returns in order to protect the value of the funds. It also outlines the

Lancashire County Council

council's strategy for financing capital expenditure, with the aim of securing the required funds at the lowest possible rate.

Although the impact of treasury management decisions are considered over the long term, there is a requirement for the strategies to be approved annually. The treasury management strategy is broadly similar to that adopted in 2018/19 however greater detail is provided this year on the business reasons for holding the different investments in accordance with new accounting regulations. There are also some changes to limits for investing with other local authorities, proposed limits now being as under 2 years, 2-10 years and over 10 years rather than the under 4 and over 4 years used in 2018/19.

During 2018 the Ministry of Housing, Communities and Local Government (MHCLG) issued updated statutory guidance on local government investments. MHCLG have been concerned that local authorities are exposing themselves to too much financial risk through borrowing and investment decisions. This guidance was issued to reflect that some local authorities are investing in non-financial assets with the primary aim of generating profit and others entering into very long term investments or providing loans for regeneration purposes. These concerns have been echoed in a statement from CIPFA. The MHCLG guidance therefore requires an investment strategy which provides an indication of the authorities' exposure to these risks. The council's proposed strategy is included at appendix 'B' to this report.

Consultations

Arlingclose, the county council's external treasury management advisers, have provided advice in the formulation of the proposals.

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel
Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice	2018	Paul Dobson (01772) 534740
Ministry of Housing, Communities and Local Government statutory guidance on local authority investments	2018	Paul Dobson (01771) 534740

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Strategy 2019/20

Under the Local Government Act 2003, local authorities must have regard to statutory proper practices in their treasury management activities. In effect this means the council must adhere to the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' 2017 edition (the CIPFA Code), and the Ministry of Homes, Communities and Local Government (MHCLG) guidance on local authority investments.

The CIPFA code requires the treasury management strategy to be produced and approved annually. In addition the MHCLG has issued updated statutory guidance on local government investments. This now covers a wider definition of investments and includes those that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). Investments held for service purposes or for commercial profit are considered in the non-treasury investment strategy.

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

The strategy includes provisions for borrowing, treasury investments, financial derivatives and the indicators that will be used for monitoring purposes throughout the year. It is designed to achieve the following objectives:

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

In setting the treasury management strategy, the following factors have a strong influence:

- the economic forecast
- the council's current investment and borrowing portfolio
- estimates of future borrowing and investment requirements

Economic forecast

The UK's progress in negotiating its exit from the European Union (EU), together with its future trading arrangements, will continue to be a major influence on the economy and therefore the council's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% over the year, slightly below the consensus forecast. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the Bank of England, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's Monetary Policy Committee (MPC) has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose contend that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's (European Central Bank) forward guidance on higher rates.

Current portfolio

The council's treasury portfolio (excluding transferred debt) as at 30 November 2018 was as follows.

	£m
Call accounts	22.723
Local authority deposits	76.300
Government, local government and supra-national bonds	299.938
Corporate bonds	107.022
Total Investments	505.983

Short term loans	536.500
Shared investment scheme	60.675
Long term loans - local authorities	147.300
Long term loans - PWLB	338.850
Total Borrowing	1,083.325

Net Borrowing	577.342

Estimates of future borrowing and investment requirements

In the medium term the prudential code requires that the council borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The following table compares the estimated CFR to the borrowing at 30 November 2018. This gives an indication of the borrowing required and the resources available for investment.

The CFR forecast includes the latest approved capital programme. Clearly, this will be subject to change as the capital programme develops.

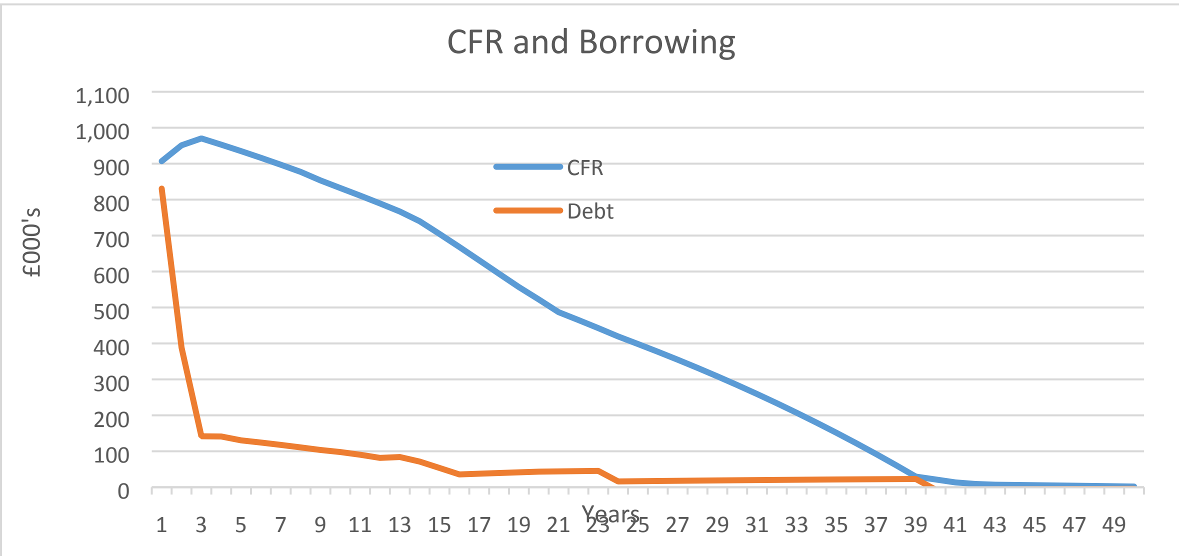
	31/3/2019	31/3/2020	31/3/2021	31/3/2022
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital Financing Requirement	1,058.409	1,097.746	1,109.761	1,085.866
Less other long term liabilities	-151.521	-146.602	-139.487	-132.980
Borrowing CFR	906.888	951.144	970.274	952.886
Less external borrowing	-903.150	-456.150	-204.600	-199.600
Borrowing requirement for capital	3.738	494.994	765.674	753.286
Other borrowing requirements*	137.627	132.103	126.890	121.773
Reserves and working capital	-380.094	-337.855	-309.474	-309.000
Borrowing/ -Investment need	-238.729	289.242	583.090	566.059

*shared investment scheme, debt held on behalf other local authorities and premiums

Borrowing Strategy

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

The council borrows for capital purposes with the underlying need to borrow for capital purposes being measured by the Capital Financing Requirement (CFR). CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the council's total debt should be lower than its highest forecast CFR over the next three years. The council has a borrowing requirement over the next three years, however in assessing the need to borrow consideration is given to the requirement to borrow for the longer term. The graph below compares the estimated CFR and debt for the next 50 years given the capital programme, MRP policy and the debt maturity position at 30 November 2018.



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

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

With short-term interest rates currently lower than long-term rates, it has been more cost effective in the recent past to borrow short-term. Given the economic outlook, significant increases in interest rates are not forecast in the medium term, this situation is likely to continue. However, there is significant economic uncertainty and rates are at historically low levels. Therefore the benefits of short-term borrowing will be monitored regularly. As a result the council may borrow additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

There are a range of options available for borrowing in 2019/20:

- Variable rate borrowing is expected to be cheaper than fixed rate long term borrowing and will be attractive during the financial year, particularly as variable rates are closely linked to Bank Rates.
- Under 10 years rates are expected to be lower than long term rates, so this opens up a range of choices that may allow the council to spread maturities.
- Additionally, although it is not felt appropriate at this time, borrowing can be achieved through the issuance of a 'commercial paper (an unsecured, short-term debt instrument issued by a corporation) euro medium term note (EMTN, a debt instrument with fixed payments that are directly issued to the market).

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

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

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

Sources of borrowing

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

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

Borrowing instruments

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

- Bank overdrafts
- Fixed term loans
- Callable loans or revolving credit facilities where the council may repay at any time (with or without notice)
- Callable loans where the lender may repay at any time, but subject to a maximum of £150m in total
- Lender's option borrower's option (LOBO) loans, but subject to a maximum of £100m in total
- Bonds, notes, bills, commercial paper and other marketable instruments.
- Sale and repurchase (repo) agreements

Loans may be borrowed at either a fixed rate of interest, or at a variable rate linked to a market benchmark interest rate, such London Interbank Offered Rate (LIBOR) which is the average interest rate at which a large number of banks on the London money market are prepared to lend to one another on unsecured funds or the Sterling Overnight Index Average (SONIA) which is administered by the Bank of England. The balance between fixed and variable rates will be subject to the limits on interest rate risk approved in this Treasury Management Strategy.

Debt restructuring

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

Other borrowing

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

Policy on Borrowing in Advance of Need

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

a) Where there is a defined need to finance future capital investment that will materialise in a defined timescale of 2 years or less; and
b) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or
c) Where in the view of the s151 officer, based on external advice, the achievement of value for money would be prejudiced by delaying borrowing beyond the 2 year horizon.

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

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

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

Treasury Management Investments Strategy

The council holds reserves and other cash items on its balance sheet which are invested. In investing these cash balances the council follows guidance issued by CIPFA and MHCLG.

The MHCLG guidance requires treasury management investments to prioritise security, liquidity and yield in that order of importance. The council will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

The council has in recent years pursued a policy to hold as investments a sum as close as possible to the cash value of its reserves and balances. This policy will continue in 2019/20 but it will be regularly reviewed to ensure value for money is achieved.

Business model for holding investments

Under the new IFRS 9 (International Financial Reporting Standard), the accounting for certain investments depends on the council's "business model" for managing them. In general, the authority holds investments to either collect the contractual cash-flows or a mixture of holding for the contractual cash-flows and sale proceeds. Neither of these would result in changes in market value having to be a charge against the Council Tax at year end. However, if investment assets are held for the purpose of trading any changes in the asset value is charged to the accounts. The business model for the main treasury management investments are as follows:

Local authority investments - these are principally investments for a fixed term which are held to maturity. In addition, the authority holds some long term bonds issued by local authorities which are also held to maturity. In both cases interest is received on agreed dates and are held for the contractual cash-flows therefore they will be valued at amortised cost.

Gilts - the holding of Gilts represent a key part of the strategy for holding investments to back up the reserves and balances while maintaining a low credit risk portfolio. They are also a liquid asset and periodic sales will be incurred in reaction to market movements to enhance the overall yield of the holdings but this is not the primary aim of the holding and therefore Gilts will be held at fair value through other comprehensive income (FVOCI) which means that market value changes will not be charged against Council Tax.

Other bonds - the council also holds other high credit quality corporate bonds. These are held primarily for the purposes of liquidity providing a low credit risk holding. These are bought and sold in relation to cash needs and it is proposed these are valued at amortised cost.

Approved counterparties

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

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

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

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

Moody's	P1
S&P	A1
Fitch	F1

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

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

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

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

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

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

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

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

Although the rating still falls within the current strategy it is possible as the Brexit process proceeds or if there is an economic downturn that there will be further downgrades. This could result in investments in UK government Gilts, treasury bonds and bodies guaranteed by the UK government falling outside the treasury management strategy. However, even if there is a further reduction in the UK credit rating, the UK government is still deemed a safe investment. The government has never defaulted on its payments and as an ultimate solution it could prevent insolvency by printing money. Therefore it is proposed that the AA- minimum sovereign rating is not applied to the UK.

The table below shows the approved investment counterparties and limits:

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills, Debt Management Office & bodies guaranteed by UK Government	UK Government	600	600	No limit
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	300	No limit
Corporate Bonds (Short Term less than 1yr to maturity)	P1/A1/F1	50	200	1 year
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	300	5 years
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	200	No limit
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	300	300	3 years
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1 year
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	50	100	These investments do not have a defined maturity date
Bond Funds with weighted average maturity maximum 5 years	AAA Rated	50	100	These investments do not have a defined maturity date
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities.	AA- with cash or AA- for any collateral	300	300	25 years
Call accounts with UK and Overseas Banks (domiciled in UK)	P1/A1/F1 Long term A Government support	100	200	Overnight in line with clearing system guarantee (currently 4 years)
Unsecured deposits/CDs to Banks and Building Societies	AA	10	50	1 year
Equity, property, multi asset or credit Pooled Funds	Ratings are not produced for such Funds	50	100	These investments do not have a defined maturity date
Local authority fixed term deposits	Government	30	450	50 years
Local authority bonds	Government	50	300	50 years

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

Regarding investments with other local authorities, Arlingclose state that they are comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting the approved strategy. For periods longer than two years they recommend that additional due diligence is undertaken prior to a loan being made. On this basis it is proposed that the nominal value of investments to local authorities are limited as follows:

	Maximum individual investment	Maximum total investment	Maximum period
Up to 2 years	£30m	£200m	2 years
Over 2-10years	£25m	£150m	10 years
Over 10 years	£25m	£100m	50 years

In addition to fixed term deposits occasionally local authorities issue bonds. The investment policy allows the county council to purchase such bonds as an investment which are generally held to maturity. The holding of the bonds is considered to be outside the limits expressed above but for the purpose of risk management the total of the bonds plus fixed term deposits with any one authority should not exceed £50m.

The council's day to day transactional bank, National Westminster, lies outside the investment credit matrix but emergency overnight deposits may be placed with them from time to time. In practice the balances are considered on a daily basis and kept as near to zero as possible. The balance on any day is typically below £1m. If there was a failure of National Westminster it is anticipated that they would be subject to bank bail-in rather than made insolvent. This increases the chance of the council maintaining operational continuity but any monies in the bank would be at risk of at least a partial loss.

Long term investments

The Treasury Management code requires where an authority invests, or plans to invest, for periods longer than one year then an upper limit for investments maturing in excess of one year is set. The authority does have fixed term deposits which are for longer than a year and the bonds usually purchased have a maturity date which is in excess of one year and these could be held to maturity.

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

As a result of the nature of the assets held it is considered appropriate to have high limit which is related to the forecast of reserves and balances held (currently forecast to be £338m at 31 March 20). However, it is anticipated that the reserves will reduce gradually during the year with positive cash-flows requiring a higher level of investments to be held. Therefore the proposed limit for 2019/20 is £475m.

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

Policy on the Use of Financial Derivatives

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

A derivative is a financial instrument with three main features:

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

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

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

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

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

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

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

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

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

The following table defines the appropriate limits for collateral quality:

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

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

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

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

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

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

It is anticipated that there may be occasions when it is appropriate to undertake transactions which seek to reduce the council's specific exposure to interest rate risk. A standard market technique involves selling Gilts to be paid for at an agreed date in the future rather than the normal next working day. It is proposed that the advance date is restricted to 1 month and the limit on the transaction(s) outstanding is £100m in total.

Impact on the County Council's Revenue Budget

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

The performance target on investments is a return above the average rate for 7 day notice money.
The following table outlines the budget for the financing charges element of the council's revenue budget as reflected in the Medium Term Financial Strategy.

	Revenue Budget 2018/19 £m	Revenue Budget 2019/20 £m	Revenue Budget 2020/21 £m	Revenue Budget 2021/22 £m
Minimum Revenue Provision	23.432	14.936	16.316	17.389
Interest paid	23.604	24.773	26.192	26.290
Interest earned	-7.777	-10.724	-10.612	-10.074
Grants received	-0.220	-0.200	-0.180	-0.160
Total	39.039	28.785	31.716	33.445

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. Provision has also been made for changing some of the borrowing to a long term fixed rate rather than the existing short term rates in 2020/21.

The position will be closely monitored by the Director of Finance and any changes will be reflected in forecasts presented to Cabinet.

Treasury Management Indicators

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management in the Public Services Code of Practice (2017) as setting the framework of principles for its treasury management activities. In accordance with the requirements of these codes the council produces each year prudential indicators which provide either a framework for the prudent management of its treasury management including limits with regard to certain types of activity such as borrowing. The indicators below are a consequence of the activities set out within the treasury management strategy.

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

	2018/19 Revised	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Borrowing	1,150	1,200	1,250	1,200
Other long term liabilities	175	175	175	175
TOTAL	1,325	1,375	1,425	1,375

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

	2018/19 Revised	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Borrowing	1,100	1,110	1,120	1,100
Other long term liabilities	155	155	155	155
TOTAL	1,255	1,265	1,275	1,255

The actual external debt at 31 March 2018 was £959.9m.

Gross debt and the capital financing requirement
CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the authority's total debt should be lower than its highest forecast CFR over the next three years. The county councils borrowing is in excess of the CFR however, in making this comparison certain borrowing is included in the total borrowing but does not count against the CFR. These include the shared investment scheme, premiums paid and the transferred debt.

	As at 31 March			
	2019	2020	2021	2022
	£m	£m	£m	£m
Borrowing CFR	906.888	951.144	970.274	952.886
Estimated total borrowing	1,044.515	1,083.247	1,097.164	1,074.659
Borrowing in excess of CFR	137.627	132.103	126.890	121.773
Represented by:				
Premiums	48.672	45.020	41.456	38.008
Shared Investment Scheme	42.750	42.750	42.750	42.570
Borrowing relating to other authorities	46.205	44.333	42.684	41.195

The indicators and limits relating to specific treasury management activities are set out as follows.

Interest rate exposure

In order to control interest rate risk the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.

	Upper Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£30m

Maturity structure of debt

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

	Upper Limit
Under 12 months	75%
12 months and within 2 years	75%
2 years and within 5 years	75%
5 years and within 10 years	75%
10 years and above	75%

Investments over 1 year

Limit on the level of long term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end (currently forecast to be £338m). The level of investments will be managed to be in line with the estimated reserves and balances and cash flow at 31 March 20 (deemed an operational limit which will be reviewed during the year). However, it is anticipated that the level of reserves will fall gradually during the year and there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes. Therefore it is proposed that the limit for maturities in excess of one year is £475m for each of the years.

	Upper limit
Total invested over 1 year	£475m
Operational or forecast limit at 31 March 2020	£375m

Minimum Average Credit Rating

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

	Benchmark
Average counterparty credit rating	A

Non-Treasury Investment Strategy 2019/20

This covers investments held to:

- support local public services by lending to or buying shares in other organisations, and
- earn investment income

In general, the council will continue its current policies regarding loans and the acquisition of shares. In addition the council will continue to review its services and if the opportunity exists to develop services that will provide opportunities for additional income generation (e.g. providing services to other authorities) these will be considered in the first instance by the appropriate service manager.

In considering any potential activity under the non-treasury investment strategy the council will take into consideration the statement from Rob Whiteman (CIPFA Chief Executive) and Richard Paver (Chair of the CIPFA Treasury and Capital Management Panel) on 'Borrowing in Advance of Need and Investments in Commercial Properties'. These re-iterate that a local authority should avoid exposing public funds to unnecessary or unquantified risk.

They state that "Both the Prudential Code and the Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government are very clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

As part of the statement there is a reminder that the informal commentary on the statutory guidance cautions local authorities against:

- becoming dependent on commercial income;
- taking out too much debt relative to net service expenditure; and
- taking on debt to finance commercial investments.

Service Investments: Loans

The council provides loans as part of its service delivery and not primarily to generate of income. The authority has made loans to Lancashire County Development Ltd which is an owned company that promotes economic development within the county; Local Pensions Partnership which provides pension investment and administration services; an arrangement with Blackpool BC with respect to the waste service and Parish Councils. The council also has an employee loan scheme to promote alternatives to travelling by car.

The key risk when making service loans is that the borrower is unable to repay the loan. Currently, the exposure faced by the council is low and it is proposed that this continues in 2019/20. The table below provides details of the loans outstanding at 31 March 18 and proposed limits for 2019/20.

Category of borrower	Outstanding at 31 March 18 £m	Proposed Limit 2019/20 £m
Subsidiaries	23.3	30.0
Other councils	32.4	35.0
Employees	0.1	1.0
Schools	0.2	5.0
Total	**56.0**	**71.0**

Service Investments: shares

The county council holds shares in Local Pensions Partnership and the Municipal Bond Agency for specific service delivery objectives**.**

Commercial Activities

The MHCLG defines property to be an investment if it is held primarily or partially to generate a profit. Although the council promotes income generating activity it is generally within the context of providing a service efficiently and covering costs rather than profit seeking. Areas where it is considered the definition is met is in relation to smallholdings and Lancashire County Development Ltd. In 2017/18 the income generated from smallholdings was less than £0.1m while LCDL made a contribution to costs of some £2.1m.

Bonds including Gilts - most of the bonds held are for treasury management purposes and not trading purposes as outlined in the treasury management strategy. However, there are occasions when cash flow and market projections make it possible to buy and sell bonds purely on a trading basis.

Bonds purchased for trading reasons will be valued at market value in the accounts. Therefore, any change in market value at year end will be charged against council tax therefore adding volatility to the council's financial position. It is proposed that the Director of Investments can invest in bonds for commercial purposes where cash-flow permits but investments outside the current treasury management credit matrix will only be incurred after agreement with the Director of Finance.

Other investment proposals may arise during the year. The proposals could involve changes to current services or changing the use of existing assets. These will be examined by officers and approval sought from the appropriate council members.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 28 January 2019

Report of the Head of Legal and Democratic Services

Electoral Division affected: (All Divisions);

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

Contact for further information:
Paul Bond, Tel: (01772) 534676, Head of Legal and Democratic Services,
paul.bond@lancashire.gov.uk

Executive Summary

This report provides an updated (Quarter 3) 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 set out at Appendix 'A'.

Background and Advice

Following the corporate approach to reporting on risk and opportunity, the quarter 3 Corporate Risk and Opportunity register was reported to Corporate Management Team, following a review of the register. The register has now been updated to reflect new mitigating actions. The register was presented to the Cabinet Committee on Performance Improvement on 5 December 2018. The updated Corporate Risk and Opportunity Register is attached at Appendix 'A'.

For this quarter, there are two new entries to the register and one deletion. The new additions are:

- CR13 - Children's Social Care - Increase in demand, including rise in number of contacts and referrals and an increase in Children Looked After numbers. In line with national trends there has been a notable increase in referrals to children's social care. The number of children looked after has continued to increase, although similar and larger increases have been reported both nationally and regionally. The increase in demand continues to impact on caseloads. The service has put in place several mitigating actions and is undertaking demand analysis work to inform next steps.

- CR14 - Intermediate care for older people in a residential setting. A review of the Lancashire intermediate care system is being undertaken and will include consideration of the best practice model for each service area including community beds. Joint action plans are being developed with NHS colleagues and a new board has been set up to monitor progress.

The one deletion from the register is:

- CR 9 - Discharge of patients from hospital into their own home or enablement/short term care in a safe and timely manner. Performance across the acute sector is at target so this is no longer a business critical risk. The risk will be retained on the service register for the purposes of managing winter pressures.

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 remains at 16
CR2	Protect and safeguard children. Further mitigating actions added. Residual risk score has reduced to 12.
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 has reduced to 12.
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 has been reduced to 12.
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.
CR13	Children's Social Care - Increase in demand, including rise in number of contacts and referrals and an increase in Children Looked After numbers. Allowing for mitigating actions this risk has a residual score of 16.
CR14	Intermediate care for older people in a residential setting. Allowing for mitigating actions this risk has a residual score of 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.

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.

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

Corporate Risk & Opportunity Register Q3 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**		• 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 risk is being monitored by both the Priorities Board and CMT
	1. Establishing a strong and visible leadership team	Organisational	• 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 • Services become unsustainable and we cannot fulfil our statutory duties • Compounds ability to set balanced budget	• Managers toolkit – HR front door launched 24th September 2018 • Leadership and employee conferences being held throughout November 2018 • Inspirational speakers – first speaker November – ongoing collection for future events • Corporate Management Team intranet pages updated • Recruitment for Chief Executive and Resources Director completed • Introduction of new suite of leadership & management modules • Specification for MSC, MBA senior Leaders apprenticeship – procurement started • PRIDE event October 2018 • Staff survey – field work undertaken and completed • Performance Engagement – new briefing sessions for managers and staff completed		• Research new Induction Programme and commence development for new Lancashire Induction • Further develop and launch new 'Inspiration Matters' e-briefing November 2018 • New suite of Leadership and Management modules to support development of managers, linked to national occupational standards and apprenticeships – January 2019 • Continue procurement process for training provider for senior leadership apprenticeships. Contract expected to be in place for December 2018 • PRIDE event 1st November 2018 • Staff Survey – analysis data • Chief Executive and Director of Resources post recruited to on a permanent basis. • Executive Director Education and Children's Services interviews recruited to on a permanent basis.			Draft People Strategy to be informed by outcome of staff survey Cabinet considered service challenge savings options on 3rd December 2018 Savings options agreed by Cabinet in December will be presented to budget Full Council in February 2019
				• 100% of reviews have been reported to the Service Challenge panel		• The timescale for the programme is on track			

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Appendix A

	2. Embed a focus on service delivery to secure a better service at a lower cost 3. Develop a sustainable financial strategy	Organisational Finance	• Unable to deliver a balanced budget in future years • Insufficient reserves • Services become unsustainable and we cannot fulfil our statutory duties	• 88% have been reported to Corporate Management Team • Reviewed progress regarding terms and conditions savings targets • Support service challenge work in the run up to proposals being presented to Cabinet in December 2018 • CMT away day to discuss future budget strategy.		• Final proposed saving options reported to Cabinet 3rd December 2018 as part of updated money matters report • December Cabinet report captured proposed savings and update of Medium Term Financial Strategy.			
CR2	Protect and safeguard children	People/Service delivery	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	16	• 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. • Safeguarding arrangements have been strengthened. Ofsted inspection (June 2018) - Inspectors broadly agreed with our self-assessment. • Annual Improvement Plan developed following the Ofsted inspection (June 2018) to ensure continued improvement at pace. The plan will be presented to Cabinet for approval in December 2018.	12	Director of Children's Services	The proportion of newly qualified social workers (ASYEs) has continued to reduce which indicates that retention of newly qualified staff is improving with staff remaining in Lancashire as they gain experience. This reflects the support provided to ASYEs by managers, advanced practitioners and the impact of the Social Work Academy. The proportion of social workers with over three years' experience has also improved indicating that experienced staff are also being retained. The average caseload for all social workers remains comparatively good.

				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. • 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. • Leadership Academy commenced September 2018.					Monthly audits of quality of practice. Advanced practitioner workshops planned, linked to child's journey in line with priorities in the Improvement Plan. Whilst compliance has significantly improved further work is required to ensure that the quality of practice is consistently good across all areas. The Improvement Plan sets out agreed priorities and timescales.
CR3	Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care.	People/service delivery	Local authority is legally and financially liable, and may be subject to judicial review if found in breach of its statutory responsibilities. Further DfE intervention if Ofsted judge Children's Services to be inadequate.	• 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. Ofsted inspection of Children's Services in June 2018 noted significant improvements, with an overall effectiveness judgement of requires improvement to be good. 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.	16	• An Improvement Plan is in development (consultation with Partners November 2018) 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.	12	Director of Children's Services	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

				• Clear line of sight to front-line practice from the Cabinet Member and DCS and Stronger management oversight in districts. • The Social Work Academy and advanced practitioner workshops are promoting Lancashire as a learning organisation and are supporting staff retention. • Independent Reviewing Officer capacity has been increased and has strengthened compliance.					maintained as part of our continuing improvement journey from requires improvement to be good. The Improvement Plan will set out agreed priorities and timescales and will inform the Ofsted annual conversation in January 2019 and be presented to Cabinet.
CR4	Recruit and retain experienced staff within Children's Services	People/service delivery	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. • 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.	20	• Development programme for more experienced Grade 9 social workers. • Improve compliance with supervision requirements to ensure staff receive appropriate support. • Retention of staff in children's social care is improving, with both newly qualified staff and experienced staff choosing to remain with Lancashire. (Sept 2018: ASYEs 27.9% (April 2017: 50.1%). Experienced social workers: • The number of inexperienced workers in post has increased slightly (April 2017: 50.1%, June 2018: 23.8%, August 2018: 27.9%). • The proportion of experienced social workers in post has reduced slightly this quarter (April 2017: 15.2%, June 2018: 31.9%, Aug 2018 30.3%).	12	Director of Children's Services	The experience imbalance has improved considerably since April 2017. This reflects the support that is provided to ASYEs by managers, advanced practitioners and the impact of the Social Work Academy. The proportion of social workers with over three years' experience has improved indicating that experienced staff are also being retained. The average caseload for all social workers remains comparatively good. There is still a reliance on the use of agency staff, although this is expected to reduce by December 2018, following recent recruitment campaigns.

									The Improvement Plan sets out agreed priorities and timescales.

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.
			
			Service planning and management will be severely compromised.
			
			Potential for incorrect payment of providers, staff etc
				• 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.
						• The Passport to Independence Trackers are being documented (functional and technical specifications are being written) so that they are fully understood. This will inform the support and the development of a migration plan.
						• Weekly provision of Annex A heat map to operational managers. Analysis of heat map clearly indicating actions needed
						• Review of performance using Chat tool provided to operational managers.
						Agree actions to provide LCC data required and request associated data from partners (police, health etc)
						• Key members of BI are on the Inspection readiness group (to also include partners as appropriate)
						• Workshops have taken place with the Business Intelligence Service to identify Corporate Reporting.
							12	CMT	Children's - Regular meetings with Deputy Director Children's Services and Executive Director Escalation via Improvement and Accountability Board.

						• The outcome of these workshops will form the basis of requirements for how the council manages reporting in the future. This will be an integral part of the Digital Strategy.			
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 controlled shutdown. Impact on service delivery	• 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. Which are due to go live in early October 2018. • Implementation of On-Line School Admissions and Education Management system which is now live. • 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. • Corporate performance information being developed as part of systems	16	• Continued monitoring of data within Lancashire Children's Service. • 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. • Critical incidents escalated within Corporate Services and BTLS. • Internal Audit have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems. • New system roadmaps developed to provide more control over system changes. Core Systems are continually reviewing request against council priorities and strategies. • HAMS specific - Fortnightly meetings with Highways Service continue, with focus on discussing and managing operational issues, with a continuous tracking of issues and timescales for rectifying these. • HAMS Specific - After comprehensive work with the service and a review by audit, a programme of work has been identified and underway. A Highways Improvement Board has been established which includes a comprehensive training and support plan for the service. Which has now begun. • Close working with Business intelligence and BTLS to undertake Landscape Review of reporting across the authority – completion due Oct 2018	12	Director of Programmes & Project Management	On-going review and control of development work plans and roadmaps through relevant Portfolio Review Boards Establishment of overarching review and control of Work Plans and Roadmaps by Digital Board. 1st Report 5th October 2018 Access for managers to simplified Oracle reports re staff sickness etc by Dec 2018 As part of the new emerging Digital Strategy there is a work stream looking at the technologies that will underpin the delivery of digital. The development of an architectural vision for the digital strategy is underway, working closely with BTLS. This includes a landscape review of existing technologies. Date for delivery to be established through Digital Board 5.10.18 Programme delivery model for Early Help

				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 • Performance Data on projects supplied to the Corporate Dashboard from PPMS. • New operating process and procedures developed and implemented to overcome recurring issues/problems - continuous improvement cycle implemented.					Module/ Education, Health Care Plan to be replicated across new system delivery projects and programmes – demonstrates effective service participation and ownership of system integration
CR7	Delivering major projects/schemes on time and within budget	Development & regeneration	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 of the capital programme has been strengthened under the auspices of the Capital Board where responsibility for oversight and challenge of cost estimates and capital budgets sits. A comprehensive review of the projects for 2018/19 including prior year slippage has been undertaken by project and programme managers, supported by finance and commissioning. The primary purpose of the review was to propose a delivery programme for 2018/19 which was approved by Cabinet in September and which now forms the agreed baseline for monitoring purposes. The review was focused on: ○ Updating the delivery programme for 2018/19 informed by the delivery performance in 2017/18 and previous years. ○ Reviewing the level of funding available for unallocated budgets and the requirement for these to be continued to be carried forward. ○ Removal of budgets previously included in 2018/19 which have been carried forward from previous years where there is no expectation or plan of delivery in 2018/19. ○ Of the new approved projects a realistic assessment of 2018/19 deliverability was made with delivery timeframes and budgets being moved to future years where appropriate.	12	Exec Director Growth, Transport and community services	The proposed delivery programme for 2018/19 has been risk-assessed as being deliverable and to which project and programme managers will be held accountable using the following actions: • Detailed monitoring of the delivery programme through 2018/19 to ensure slippage is reported in a timely manner and a robust level of challenge is provided to programme and project managers to ensure delivery remains on track. • Performance reports developed to enable the Capital Board to undertake this monitoring and challenge.

CR8	Delivering a statutory service for children and young people with special educational needs and/or disabilities.	People/Organisational	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. 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	• 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 ○ 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	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.* ○ *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.	12	Director of Children's Services	The Local Area SEND Inspection identified serious weakness in delivery of the SEND Reforms. The monitoring visits by DfE and NHS England have confirmed continued progress has been made. Further monitoring visits are planned for December 2018.

CR10	Adult social care provision is adequate and responsive to meet current and future demand	People/Organisational	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.	16	• Weekly Homecare mobilisation operational meetings to review progress/raise challenges/agree actions. Board oversight. • Weekly Homecare domiciliary care delays circulated for information across ops/Commissioning/Contracts	12	Director of Adult Services	Homecare mobilisation almost complete and the strategic risk is improving. Residual risk score to be reviewed next quarter as risk may have been sufficiently mitigated.
CR11	Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)	People/Organisational	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. 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	• 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 with the team ensuring that all available data and information systems are fully utilised to maximise PBR claim opportunities	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. • TFU Maturity Model self-assessment completed and developed action plan to support delivery and improvement.	16	Director of Public Health	2740 payment by results Payment By Results (PBR) claims have been submitted to the Troubled Families team for the period up to the September 2018 claims window. Whilst this is a shortfall of the budgeted target (2950) for this period, the Children and Family Wellbeing service has identified a number of priority areas of focus which will hopefully generate additional PBR claims. On completion of the above it is anticipated that there will be an

									increase in the trajectory to a target figure of 4120 PBR's by the close of the March 2019 claims window.
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.	People/Organisational	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. • The importance of keeping information secure continues to be promoted at every opportunity and prompt action is taken to address and learn from any potential breaches. • Internal Audit have confirmed that appropriate controls are in place within Children's Service. • Formal management letters are now issued within Safeguarding Inspection & Audit and Fostering, Adoption, Residential & YOT when incidents are down to human error.	12 (Major/ Possible	Director of Corporate Services	The number of reported incidents has now levelled following the sharp increase earlier in the year. The increase can therefore be attributed to the introduction of mandatory e-learning and awareness raising campaigns. The Information Governance Team plan to introduce specific training for staff who have been involved in an information security breach focused on learning lessons. The training will be introduced next quarter. Awareness raising through staff notices etc is ongoing
CR 13	Increase in demand, including rise in number of contacts and referrals and an increase in Children Looked After numbers.	People/Organisational	• High, unmanageable caseloads. • Potential drift and delay - impact on timeliness of assessment, plans and interventions with children & families. Financial implications.	• Data Quality & Performance Group oversees data accuracy, ensuring reliable performance data to aid managers understanding of demand. • Weekly and monthly performance reports provide trend data. • Monitoring of performance and caseloads via Start-Well Senior Leadership Team.	20	• Demand analysis, including dip sampling of cases, being completed as part of service challenge to inform our understanding of the source, type and reasons underpinning the increase in demand seen in recent months. This will identify learning, commissioning gaps and whether demand can be managed differently. • Track and challenge meetings chaired by Improvement Partner established in each locality	16	Director of Children's Services	There has been a notable increase in referrals to children's social care. The number of children looked after has continued to

				• Monthly Practice Improvement Meetings in each locality chaired by the Head of Service to scrutinise performance. • Prevention & Demand Management Board oversees front door arrangements and quality and appropriateness of contacts/referrals. The Board reports to the Improvement & Accountability Board. • Becoming Looked After Panels in each locality to consider all placement requests. • Challenge via monthly Children's Services Finance & Monitoring Board re savings targets. • Sufficiency Strategy includes targets to reduce CLA numbers through prevention of S20 accommodation and children exiting from care. More effective placement finding will also reduce costs.		to ensure appropriateness of care plans for CLA and to reduce costs. • Tracking of home placements awaiting revocation, to ensure, where appropriate, more timely discharge of Care Orders for children placed with parents			increase, although similar and larger increases have been reported both nationally and regionally. The increase in demand continues to impact on social work caseloads, with the average caseload at 20.9 - September 2018,.(June 2018: 22.9), although some caseloads are significantly higher than this. Further action is being taken to address this: • Scheme of delegation reviewed and Head of Service approval now required for children becoming looked after. • Successful life chances bid will support children on the edge of care. • Increased use of Family Group Conferencing as a demand management strategy. • Adolescent Support Unit and Outreach Service are preventing the need for accommodation. The findings of the demand analysis work will also inform next steps

CR14	Intermediate care for older people in a residential setting	People/Organisational	• Operational issues leading to service failures • Unavailability of community beds for older people on a short term basis • Prolonged period of rehabilitation and recuperation before the person goes home • Delayed transfer from hospital • Reputational challenge for the Council if care homes operated by the council are judged by CQC as 'Requires Improvement'	• New Head of Service has been appointed and a programme to drive forward changes in management culture and performance has been developed • Management responsibilities have been realigned	16 (Major/ Likely)	• A review of the Lancashire intermediate care system is being commissioned using money from the BCF, and will include consideration of the best practice model for each service area including the community beds • Working with NHS colleagues to agree joint action plans • Discussion with CQC on lessons learnt and action plans • County Council care homes will formally be part of RADAR and QUIP safeguarding systems • A quarterly Quality Assurance Panel will be set up with Director of Adult Services and Head of Service presenting a progress report against the action plans the Executive Director, Head of Safeguarding and an external NHS representative	12(Major/Possible)	Executive Director for Adult Services and Health & Wellbeing	Following the implementation of the mitigating actions CQC ratings have improved.
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 the whole of Lancashire	Development & regeneration	Self-sustaining organisation Stronger and growing economic base Ability to deliver affordable high quality services with outcomes relevant to the needs of our residents, 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	• 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 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	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 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	16	CMT	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. We are now looking to move forward

			residents and businesses with economic opportunities.	project funding is being restricted to spend prior to end 2018. Significant beneficiaries include the Council, other local authorities, Higher Education Institutes' and Colleges. • Secured national Digital Skills Pilot status • Lancashire Leaders attended a "growth" workshop on 24 July to develop shared priorities with the support of the LEP. Following this an Economic Development themed workshop took place on the 25th September 2018. • NW Made Smarter pilot approved by Government. Lancashire is one of five NW LEPs co-designing this programme with industry partners		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. • Lancashire's Transforming Cities submission with Government. • Developing response of Lancashire Enterprise Partnership to Governments LEP review. A special board meeting took place on 12 September 2018. • On-going input to work of Transport for the North on strategic development corridors			with the production of a Local Industrial Strategy to maximise new funding opportunity. New national housing and transport infrastructure funds will be targeted in support of local strategic priorities. The LEP Review, published in July will present some significant challenges for local partners as the LEP is required to establish it's own legal entity and further distance itself from any local authority support.
CO2	Apprenticeship Levy and Apprentice % in Public Sector	People/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 • Close working relationship with the LGA and we are focussing currently on Higher degree apprenticeships. LGA will be supporting LCC in developing a strategy and future spending plan.	15	Dir of Corporate Services	We now have more Standards available to us, which we have been waiting for and we have developed a draft strategy with the LGA support which we intend to share with Director, HR, Finance , CMT

CO3	Develop and implement improved recruitment and retention practices to address increasing challenges	People/Organisational	Reduced staff turnover, especially 'hard to fill' roles; improve staff morale; reduce costs; reduce sickness absence; improve productivity.	Action plan approved by CMT. Some of the focus will be on Children's and Adult Services initially	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 10

Audit, Risk and Governance Committee
Meeting to be held on Monday, 28 January 2019

Electoral Division affected: (All Divisions);

Skills and Development Needs Review

(Annexes 'A' to 'C' refer)

Contact for further information:
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Executive Summary

At a meeting held on 30 July 2018 meeting of the Audit, Risk and Governance Committee agreed a review of the skills and development needs of the current committee members. This reports sets out the findings of the review and next steps.

Recommendation

The Audit, Risk and Governance Committee is asked to note the outcome to the review at Appendix 'C', and confirm the subject areas for initial training and the preferred training methods (as outlined in this report).

Background and Advice

At a meeting held on 30 July 2018, the Audit, Risk and Governance Committee agreed a review of the skills and development needs of the current committee members. To support the review, a draft audit committee knowledge and skills framework was identified (Appendix 'A' refers) from the 'The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees: Practical Guidance for Local Authorities and Police'.

Using this framework, a questionnaire was developed by the Member Development Team (Appendix 'B' refers) to support councillors in exploring their key skills and to review any areas for learning and development (circulated to members on 3 September 2018).

The following definitions were utilised for this review:

- "Low need" means that you are confident in this area, you have recently received training and/or you have good knowledge and experience.
- "Medium Need" means that, whilst you have some level of understanding, you feel you need more to be able to do your job well; or, you have received training, but it was some time ago or only partial.

- "High Need" means it is an area you have little or no experience in, have never had training, or where you would really like to know more.

The review produced a 100% response rate from the Audit, Risk and Governance Committee members. The responses received were logged against the criteria from the review and can be found at Appendix 'C'.

By utilising the definitions (outlined above) for this review, this will allow for a targeted training package to be identified, responding primarily to those training areas of highest need. Therefore, from the responses received it can be ascertained that there is a need for two types of training, targeted one to one training for individual members and general subject specific training for all members.

The Member Development Team provides training from a variety of resources including:

- Bite sized briefings – utilising the skills and knowledge base of officers within the authority.
- One to one training with relevant officers within the authority.
- External paid for training packages and/or conferences.
- Online training package.

Initial 'High Need' areas for training include:

- Governance (including values of good governance).
- Internal Audit.
- Financial Management and Accounting.
- Counter Fraud.
- Communication skills and focus on the needs of users.

At this point, it is important to highlight to committee members that a further, wider training needs analysis is currently underway for all 84 councillors. This review included some of the core areas of knowledge specific to the Audit, Risk and Governance Committee.

This was included to primarily capture information from other councillors who would like further development in these key areas with a view to either becoming a future member of the committee or to enable political groups to have an established list of members with the skills required to undertake duties as a replacement committee member when required. Once this review has been concluded, the outcome will be included as part of the overall training package for the Audit, Risk and Governance Committee (Appendix 'C' refers).

Next steps

The Member Development Team will contact individual members who identified a high need for specific training and agree an individual training plan. For those areas where a number of councillors identified a high or medium need, appropriate training will be provided by one of the methods set out in the report, e.g. bite sized briefings.

Implications:

This item has the following implications, as indicated:

Risk management

There is a range of knowledge and experience that committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire in order for the committee to be effective. The knowledge and skills framework has been used as a basis to identify training needs so that appropriate training plans can be developed for individual committee members. This will improve the overall effectiveness of the committee and reduce the risk of the committee not fulfilling its statutory function.

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, Risk & Governance Committee members – Draft knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	An overview of the governance structures of the authority and decision-making processes Knowledge of the organisational objectives and major functions of the authority	This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions	An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements Knowledge of the purpose and role of the audit committee	This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance	Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS Knowledge of the local code of governance	The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework The committee will plan the assurances it is to receive in order to adequately support the AGS The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit	An awareness of the key principles of the PSIAS and the LGAN Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled	The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting	Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them Understanding of good financial management principles Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018)	Reviewing the financial statements prior to publication, asking questions Receiving the external audit report and opinion on the financial audit Reviewing both external and internal audit recommendations relating to financial management and controls The audit committee should consider the role of the CFO and how this is met when reviewing the AGS

Knowledge area	**Details of core knowledge required**	**How the audit committee member is able to apply the knowledge**
External audit		
	Knowledge of the role and functions of the external auditor and who currently undertakes this role	The audit committee should meet with the external auditor regularly and receive their reports and opinions
	Knowledge of the key reports and assurances that external audit will provide	Monitoring external audit recommendations and maximising benefit from audit process
	Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken	The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service
Risk management		
	Understanding of the principles of risk management, including linkage to good governance and decision making Knowledge of the risk management policy and strategy of the organisation Understanding of risk governance arrangements, including the role of members and of the audit committee	In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud		
	An understanding of the main areas of fraud and corruption risk to which the organisation is exposed Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)	Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support

	Knowledge of the organisation's arrangements for tackling fraud	the audit committee member in reviewing that assessment

Knowledge area	**Details of core knowledge required**	**How the audit committee member is able to apply the knowledge**
Values of good governance	Knowledge of the Seven Principles of Public Life Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff Knowledge of the whistleblowing arrangements in the authority	The audit committee member will draw on this knowledge when reviewing governance issues and the AGS Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported
Treasury management	Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: regulatory requirements treasury risks the organisation's treasury management strategy the organisation's policies and procedures in relation to treasury management	Core knowledge on treasury management is essential for the committee undertaking the

CORE SKILLS

Skills	**Key elements**	**How the audit committee member is able to apply the skill**
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side tracked by detail	When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much

		time on detail
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations Challenging performance and seeking explanations while avoiding hostility or grandstanding	The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility	The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice	The audit committee should seek assurances that planned actions are practical and realistic
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc	The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity	The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views

Meeting management skills	Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting	These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

Appendix B

Audit, Risk and Governance Committee

Skills and Development Needs Review

This review has been drafted by the Member Development Team to support councillors in exploring their key skills and to review any areas for learning and development.

When completing the form, use the following definitions:

- "Low need" means that you are confident in this area, you have recently received training and /or you have good knowledge and experience
- "Medium Need" means that, whilst you have some level of understanding, you feel you need more to be able to do your job well; or, you have received training, but it was some time ago or only partial
- "High Need" means it is an area you have little or no experience in, have never had training, or where you would really like to know more

Please tick the relevant box for each of the skills and subject areas listed below.

Knowledge Area	**Details of Core Knowledge Required**	**Low Need**	**Medium Need**	**High Need**
Core Areas of Knowledge				
Organisational knowledge	An overview of the governance structures of the authority and decision-making processes. Knowledge of the organisational objectives and major functions of the authority.	☐	☐	☐
Audit, Risk & Governance committee role and functions	Understanding of the committee's role and place within the governance structures.	☐	☐	☐

	Familiarity with the committee's terms of reference and accountability arrangements. The purpose and role of the audit, Risk & Governance committee.			
Governance	The seven principles of the CIPFA/Solace Framework and the requirements of the Annual Governance Statement. The local code of corporate governance.	☐	☐	☐
Internal audit	Awareness of the key principles of the Public Sector Internal Audit Standards and the Local Government Auditors Network. Arrangements for delivery of internal audit service and how the role of the head of internal audit is fulfilled.	☐	☐	☐
Financial management and accounting	Awareness of financial statements and the principles it must follow to produce them. Understanding of good financial management principles. How the organisation meets requirements of the role of Chief Finance Officer, as required by The Role of Chief Financial Officer in Local Government (CIPFA 2016) and CIPFA Statement on Role of Chief Financial Officers in Policing (2018).	☐	☐	☐

External audit	Role and functions of the external auditor and who undertakes this role. Key reports and assurances that external audit will provide. Arrangements for appointment of auditors and quality monitoring undertaken.	☐	☐	☐
Risk management	Understanding of principles of risk management, including linkage to good governance and decision making. Risk management approach adopted by the organisation. Risk governance arrangements, including role of members and the Audit, Risk & Governance committee.	☐	☐	☐
Counter fraud	Understanding of the main areas of fraud and corruption risk to which organisation is exposed. Principles of good fraud risk management practice in accordance with Code of Practice on Managing Risk of Fraud and Corruption (CIPFA 2014). Organisations arrangements for tackling fraud.	☐	☐	☐
Values of good governance	Seven Principles of Public Life. Authority's key arrangements to uphold ethical standards for both members and staff. Whistleblowing arrangements in the authority.	☐	☐	☐

Treasury management	Effective Scrutiny of Treasury Management is an assessment tool for reviewing arrangements for undertaking scrutiny of treasury management. Regulatory requirements, treasury risks, organisations treasury management strategy, policies and procedures in relation to treasury management.	☐	☐	☐
Core Skills				
Skills	**Key Elements**	**Low Need**	**Medium Need**	**High Need**
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side tracked by detail	☐	☐	☐
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations	☐	☐	☐
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility	☐	☐	☐
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice	☐	☐	☐

Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms etc	☐	☐	☐
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity	☐	☐	☐
Meeting management skills	Chairs the meeting effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting	☐	☐	☐

If there are any other skills or subject areas you feel would be useful in your role for development, please list below:

Please send the completed form to member.development@lancashire.gov.uk by Friday 28 September.

Appendix C

	Organisational knowledge	Audit, Risk & Governance committee role and functions	Governance	Internal audit	Financial management and accounting	External audit	Risk management	Counter fraud	Values of good governance	Treasury management	Strategic thinking and understanding of materiality	Questioning and constructive challenge	Focus on improvement	Able to balance practicality against theory	Clear communication skills and focus on the needs of users	Objectivity	Meeting management skills
	Low	Low	Low	Low	High	Low	High	High	High	Low	High	High	High	Low	High	High	High
	Low	Low	Low	Medium	High	Low	Low	Medium	Low	Low	Low	Low	Low	Low	Medium	Low	Low
	medium	low	low	low	low	low	low	medium	low	low	low	low	low	low	low	low	low
	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
	Low	Low	medium	High	medium	low	Low	Medium	Medium	Medium	Low	Low	Low	Low	Medium	Low	Medium
	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
	Low	Low	High	High	Low	Medium	Low	Medium	Medium	Medium	Low	Low	Low	Low	Low	Low	Low
	Low	low	medium	low	medium	low	low	low	low	medium	low	low	low	low	low	low	low
Summary	**7 Low 1 Med**	**8 Low**	**5 Low, 2 Med, 1 High**	**5 Low, 1 Med, 2 High**	**4 Low, 2 Med, 2 High**	**7 Low, 1 Med**	**7 Low, 1 High**	**3 Low, 4 Med, 1 High**	**5 Low, 2 Med, 1 High**	**5 Low, 3 Med**	**7 Low, 1 High**	**7 Low, 1 High**	**7 Low, 1 High**	**8 Low**	**5 Low, 2 Med, 1 High**	**7 Low, 1 High**	**6 Low, 1 Med, 1 High**
Initial Areas for Training	Low	Low	High	High	High	Low	Low	High	High	High	Low	Low	Low	Low	High	Low	Medium

Current Responses to the Councillor Skills and Development Needs - Audit Risk and Governance

	Committee role and functions - Understanding of the committes role and place within the governance structures.Familiarity with the committees terms of reference and accountability arrangements.The purpose and role of the committee.	Governance - Understanding of The seven principles of the CIPFA/Solace framework and the requirements of the Annual Governance Statement.The local code of corporate governance.	Internal Audit Awareness of the key principles of the Public Sector Internal Audit Standards and the Local Government Auditors Network.	Financial Management and Accounting - Awareness of financial statements and the principles it must follow to produce them.Understanding of good financial management principles.	External Audit - Understanding of the role and functions of the external auditor and who undertakes the role.	Risk Management - Understanding of principles of risk management including linkage to good governance and decision making.Risk management approach adopted by the authority.	Counter Fraud - Understanding of the main areas of fraud and corruption risk to which authority is exposed.Authority arrangements for tackling fraud.	Treasury Management - Understanding of the effective scrutiny of Treasury Management including regulatory requirements treasury risks policices and procedures in relation to Treasury Management.
	Medium Need	Medium Need	Medium Need	Low Need	Low Need	Medium Need	Medium Need	Medium Need
	Low Need	Low Need		Low Need	Low Need	Low Need	Low Need	Low Need
	High Need	High Need	High Need	High Need	High Need	High Need	High Need	High Need
	Medium Need	Medium Need	High Need	High Need	High Need	High Need	Low Need	High Need
	Low Need	Low Need	Medium Need	Medium Need	Medium Need	Medium Need	Medium Need	Medium Need
	Low Need	High Need	High Need	High Need	Low Need	Low Need	Medium Need	High Need
	Low Need	Medium Need	Medium Need	Medium Need	Medium Need	Low Need	Medium Need	Low Need

Audit, Risk and Governance Committee
Meeting to be held on Monday, 28 January 2019

Electoral Division affected:
None;

Protocol for Grants to the Community and Voluntary Sector
(Appendices A and B refer)

Contact for further information:
Josh Mynott, Tel: (01772) 534580, Democratic and Member Services Manager,
josh.mynott@lancashire.gov.uk

Executive Summary

At the request of the Committee, a protocol to cover the management and award of grants by the County Council to the voluntary, community and faith sector has been developed for consideration.

Recommendation

That

i. the Committee approve the Protocol for the administration of Grants to the Voluntary and Community Sector, as presented at Appendix A
ii. the constitution be amended to ensure that all grants schemes operated by the county council follow the Protocol, and that the Director of Corporate Services be authorised to approve the wording to be used in the constitution.

Background and Advice

At its meeting on 29 October 2018, the Audit Risk and Governance Committee considered the report of the external auditor on the Neighbourhood Wellbeing Grants awarded in 2016 and 2017, and resolved (in part):

"that the Chief Executive and Director of Resources be requested to:

i) Report to a future meeting of this Committee setting out the responsibilities of Lancashire County Council's officers in relation to council expenditure and outlining a protocol to be followed when grants are awarded to community groups and other voluntary bodies with a view to reporting to Full Council in due course."

Attached at Appendix A is a summary of the key principles for operating grants scheme within the council. Appendix B is a full draft protocol. The protocol covers all aspects of developing grants scheme from determining criteria, through the application process, to approval and subsequent monitoring. It is acknowledged that the arrangements for the governance of grants should always be proportional to the amounts under consideration, whilst maintaining robustness and transparency.

At the same meeting of the Committee, it was also resolved to

"Report this matter to Lancashire Constabulary for investigation to determine if there has been any fraud, misconduct in public office or a criminal breach of electoral law."

A full copy of the letter from the Lancashire Constabulary has been provided to members of the Committee. In summary, the response of the senior Police Officer who considered the referral was that, whilst recognising that the report outlined elements of poor practice and a lack of transparency, he concluded that there is no evidence to suggest that any of the actions amounted to criminal conduct and it was not in the public interest for the police to pursue the matter further.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The report of the external auditor highlighted a number of areas of concern in the award of the Neighbourhood Wellbeing Grants, and the adoption of the protocol would help mitigate the risks to the council of future grants programmes by ensuring that members and officers follow established criteria and good practice.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Protocol for Grants to the Community and Voluntary Sector

Summary of Principles

Providing grants to the voluntary and community sector can be an important way of supporting our communities and the council's priorities. However, it is essential to remember that this is public money, and appropriate safeguards must always be put in place to ensure that grants schemes achieve their aims, deliver value for money and are organised in a transparent way.

The following are the key messages. A full "Protocol for Developing a Grants Scheme" is available and provides more information on the following principles, including examples and sources of further help and advice.

1. **Decide what you want to achieve**
   - Does it align with corporate priorities?
   - Is a grant scheme the best way to do it? Consider alternatives, such as commissioning the activities directly.
   - Ensure senior officer / Cabinet support, including considering whether a report to Cabinet is required at this stage.

2. **Establish what funding is available and that it is OK to use it for the purpose**

3. **Name a "Senior Responsible Owner"**
   - A named individual who takes overall responsibility for the scheme.

4. **Develop a criteria**
   - What's the money for?
   - What sort of things will you not fund?
   - What will be the minimum and maximum awards?
   - How will you take into account any Safeguarding issues?
   - How will you comply with the Prevent duty?

5. **Decide who can and can't apply**
   - Organisations or individuals? Who and what?

6. **Agree how applications can be made, and what evidence / documentation will be needed from applicants**
   - The process must be accessible – not too complex so as deter possible applicants, but including enough information to allow a proper assessment.
   - Generally, the more money that’s involved, or the more sensitive the area of work, the more evidence and supporting information you should ask for.

7. **Consider how you will promote the scheme**
   - Will you target certain groups, or publicise it widely?
   - How long will the scheme be open for – is it fixed or ongoing?

- Make sure the criteria is published and widely available and understood.

8. **Agree the assessment and decision making process**
   - All grant funding decisions formally sit with Cabinet. Make sure you agree delegation if you want officers to take decisions.
   - Make sure the process is transparent, and that there are no conflicts of interest.
   - Decide who will sit on any assessment panel.
   - Decisions must be made objectively against the criteria, and should be evidenced, eg through a scoring sheet.

9. **Create a Grant Funding Agreement**
   - A set of terms and conditions, signed by us and the recipient.
   - Make sure it's proportionate to the level of funding.
   - You must take legal advice on any agreements.

10. **Establish monitoring arrangements**
    - These should be proportionate to the level of funding.
    - Should include arrangements for "clawback" of funding not used or improperly used.

11. **Keep Records**
    - Including taking account of good information governance practice.

12. **Conduct a review**
    - Once the scheme is finished, review its effectiveness.
    - Share your findings and lessons learned with appropriate officers and others.

Protocol for Developing a Grant Scheme

Guidance Notes for Officers

Lancashire County Council

www.lancashire.gov.uk

Administering a grant scheme can be complex and due regard should be given to important factors when developing and launching a scheme such as pre-determined criteria, the application process, assessment and selection, advertising and monitoring and evaluating outcomes.

It is important that adequate systems and procedures are put in place to assess the suitability of grant applications to ensure the application process is fair, transparent and fit for purpose.

If you need further guidance or advice you can contact Democratic Services on 01772 530818.

Contents

Introduction

Throughout the authority there are a number of Services that are responsible for delivering grants to third sector organisations and voluntary bodies across Lancashire. This guide is designed to provide members, officers and Services with guidance that should be considered when developing and launching a new grant scheme.

The County Council makes Grants under the general power of competence set out at Section 1 of the Localism Act 2011, which replaces the well-being power in Section 2 of the Local Government Act 2000 for local authorities in England. Section 1(1) of the Localism Act sets out that a local authority has power to do anything that individuals generally may do.

Grants are funded from public funds and as a local authority we are accountable and have a duty to ensure that funding is distributed properly, spent lawfully as originally intended and that processes used to determine grant recipients are fair and transparent.

Government Advice

The Cabinet Office has published updated guidance in July 2018 to all grant funding departments. The guidance supports grant makers in complying with the Government Functional Standard for General Grants and details 10 minimum standards that all grant making bodies should adhere to:

1. Senior Responsible Owner

All government grants shall have a named Senior Responsible Owner (SRO) with clearly defined responsibilities throughout lifetime of grant.

2. Governance, Approvals and Data Capture

Departments shall ensure they have a robust grants approval process to approve spend over £100k, and that details of all current grant schemes and awards are available on the Government Grants Information System (GGIS).

3. New Grants Advice Panel

New government grants, including those that are high risk and novel and contentious, as well as those undergoing a step change in scope or funding, should be considered for submission to the New Grants Advice Panel (NGAP) for scrutiny and advice from subject experts.

4. Business Case Development

A robust business case, proportionate to the level of expenditure and risk, shall be developed for all government grants. This should be scrutinised and approved in stages, as part of grants approval process, in line with the guidance in Managing Public Money.

5. Competition for Funding

Government grants should be competed by default; exceptions may be approved where competition would not be appropriate. Detailed supporting evidence for any direct award decision should be provided in the approved business case.

6. Grant Agreements

All government grants shall be awarded through robust grant agreements, proportionate to the value of the grant and which reflect the Functional Standard for government grants, in line with guidance in Managing Public Money. All government grant agreements shall include terms of eligible expenditure.

7. Due Diligence and Fraud Risk

All government grants shall be subject to timely and proportionate due diligence and fraud risk assessment.

8. Performance and Monitoring

All government grants should have outputs agreed and longer-term outcomes defined, wherever possible, to enable active performance management, including regular reviews and adjustments where deemed necessary.

9. Annual Review and Monitoring

All government grants should be reviewed annually at a minimum with a focus on financial reconciliation, taking into account delivery across the period, resulting in a decision to continue, discontinue or amend funding.

10. Training

All those involved in the development and administration of grant awards should undertake core training in grant management best practice.

Further information, including specific guidance on each of the 10 standards can be viewed here:

https://www.gov.uk/government/publications/grants-standards/grant-standards

Developing a Grant Scheme

Who can apply for the grant?

Before developing a grant scheme, think about who the grant is aimed at and which organisations are eligible to apply, for example, third sector organisations, voluntary bodies, registered charities, community groups, community interest groups, companies limited by guarantee and social enterprises are just some of the types of organisations that may wish to apply. You also need to think about which bodies may not be eligible to apply, for example, statutory organisations such as the NHS or schools. The eligibility criteria is important and this information should be detailed clearly in guidance issued to applicants so that organisations do not waste valuable time and effort in making an application if they are not eligible to do so.

Developing criteria for the grant scheme

A key element to developing a grant scheme is defining pre-determined criteria that applicants must meet in order to be considered. Think about the purpose of the grant scheme, what the priorities, desired outcomes or targets are that the scheme hopes to achieve. Local authority grant schemes are often linked to achieving corporate priorities that are aligned to a particular strategy or framework such as the Corporate Strategy, if so, working towards delivering these outcomes or targets may form part of the criteria.

Consider whether organisations must be 'not for profit' and whether individuals can apply or groups that may not be fully constituted, if your scheme is open to small grass root organisations some may not have a formal constitution in place, in which case consider whether a set of rules or some other form of documentary evidence such as minutes of meetings are acceptable. The county council makes payments by BACS transfer and organisations will need an organisational bank account for payments to be made.

If the funding application will result in an organisation working directly with children or vulnerable adults then as a funder you must ensure that you are satisfied that the organisation has robust safeguarding policies in place to do so. As a local authority we also have a duty to ensure that organisations are complying with the Prevent Duty requirements and this should be included in the criteria.

Guidance notes or advice on how to apply should clearly define the criteria for the scheme, informing organisations what the basic requirements for applying are and detailing what organisations are expected to deliver.

Detailed below are **examples** of criteria, these are just examples, and this is not a restrictive list. Each grant scheme will have its own purpose and uniqueness which will need to be considered when setting the criteria:

- Organisations must have a constitution, governing document, articles of association or set of rules in place.

- Organisations must have a bank account in its own name with at least two unrelated authorised signatories.
- Organisations must be a 'not for profit' organisation.
- The proposed activity has clearly defined outcomes that meet one or more of the priorities as defined in the relevant strategy/framework.
- Organisations applying for funding to support and/or work directly with children and/or vulnerable adults, MUST supply appropriate Safeguarding Policies relating to children and/or vulnerable adults. Organisations MUST also ensure that they are complying with the requirements of the Disclosure and Barring Service in relation to this, as well as ensuring that their staff and volunteers having undergone appropriate (standard or enhanced) checks with the Disclosure and Barring Service (DBS) with appropriate Barred list checks were eligible, in accordance with guidance, for all the individuals involved (both staff and volunteers). The only exception to this is where parents accompany their **own** children.
- Each application must be in compliance with the Prevent Duty requirements (were an organisation does not support or provide a platform for extremists or their views). https://www.gov.uk/government/publications/prevent-duty-guidance
- Applications should demonstrate a commitment to value for money and the desire to be more sustainable and less grant reliant in the future. Applicants that show consideration to other opportunities i.e. income generating ideas, match funding and joint working will be looked upon more favourably.

Governance arrangements and supporting documentation

Organisations should have the necessary governance arrangements in place to apply for grant funding. Consider what supporting documentation they will need to submit as part of the application process to confirm this.

Examples of documentation you may wish to see are detailed below, these are just **examples**, and is not a restrictive list. Not all organisations will have all the documents listed below, you will need to determine which documents you consider to be essential to the application process. If the organisation is working with children or vulnerable adults as part of their project you will need to ensure that they have the necessary policies and procedures in place and request to see a copy of it.

- Copy of the most recent published Accounts (audited where appropriate)
- Bank Statement
- Constitution/set of rules/governing document
- Business Plan
- Child/Vulnerable Adult Protection Policy
- Annual Report
- Equal Opportunities Policy
- Environmental Policy
- Complaints Procedure
- Quality Assurance Scheme

How much funding is available?

If possible, clarify from the start of the funding programme how much funds are available and what can and can't be funded. If for any reason you are unable able to commit to an exact amount (for example the amount available could go up or down) inform applicants so they are aware changes may occur and expectations can be managed. Think about any other considerations in relation to the amount of money available and ensure this information is detailed clearly in advice issued to the applicant, for example:

- Will the grant scheme have a minimum and/or maximum limit that applicants can apply for?
- Are organisations only permitted to submit one application or can they apply more than once?
- Is this a one off funding pot or will the scheme potentially be available for future years?
- What happens if you are unable to allocate the full funds in the first round, will you open up for a second round of funding later in the cycle? If so factor this into your timetable.
- Is the funding available for one year or can the applicant apply for more than one financial year?

What can and can't the scheme fund?

Think carefully about the type of projects that the scheme is looking to support and additionally the types of projects or activities it will not support. If this is not clear from the beginning, an organisation may challenge this, if you later decide you do not wish to support something that was not clearly mentioned in the guidance.

What can and can't be funded will depend significantly on what kind of funding scheme you are establishing, some schemes may have a particular focus on revenue funding such as staff salaries, rent, utilities, others may not support revenue costs and may be specifically project funding. It may be that as part of the project costs you are happy to accept a portion of staff salary costs to cover the specific project. The **examples** detailed below are not restrictive and each grant scheme will need to consider its individual uniqueness and purpose:

Examples of what can be funded:

- Provision of equipment such as sports equipment, play equipment, computer hardware etc.
- Community events/activities such as: advertising and publicity, equipment and material, transport etc.
- Projects to improve the environment e.g. tree planting, flower beds.
- Repair or refurbishment of equipment or property which will benefit the community.
- Activities to improve the health and wellbeing of residents, vulnerable or isolated people, such as outings, clubs, health and fitness.

- Training costs
- Core costs of an organisation including staff salaries, rent and utilities.

Examples of what you may not wish to fund:

- Individuals or where the benefit is for one person only.
- Applications for core costs or on-going project costs, for example costs such as rent, utilities or on-going salaries.
- Applications for research activities or to help pay towards legal fees.
- Applications where the request for funding is not for a new project, initiative or activity.
- Applications from statutory bodies including:
  - Parish and Town Councils
  - schools, colleges or universities
  - health authorities or for activities that should be funded by the health service;
  - animal welfare organisations.
- Applications to fund religious or political activities (faith based organisations are eligible to apply).
- Applications from groups whose sole purpose is to campaign, or any campaign activity.
- Applications to fund retrospectively, meaning support for work that has already taken place prior to the agreement of funding.
- Applications to fund projects for the benefit of people who are not a resident of Lancashire.
- Any application that is unlawful or is contrary to County Council Policies and Procedures.

Application Process

The application process should be fair and transparent and there should be a clear method to apply such as a structured application form, making the process equitable for all organisations applying. If you are requesting organisations to submit expressions of interest instead of an application form, provide clear guidelines on what you expect the expression of interest to cover. The application process should be clear and user friendly, and consideration should be given to information being accessible for people with a disability or sensory loss so that further support can be provided if necessary.

Standard application forms can be created and completed by applicants in Word and can be shared through the county council website or via email. If your application process is more complex you may wish to consider developing an online system where applicants can complete the application form online and submit supporting documentation through a portal, IT Services can advise further. If more than one member of staff is responsible for receiving completed applications consider setting up a Team Mailbox to ensure nothing is missed. Always acknowledge receipt of applications and ensure this is emphasised in the application process.

Application Form

Clearly structured guidance and questions on the application form are invaluable for the applicant and those assessing the application to make an informed assessment, therefore it is important to consider carefully what information you need from applicants.

Each application form will be unique depending on its purpose but generally speaking consideration can be giving to the following sections on an application form:

- **Contact details** – address, contact person, email and telephone number, website etc.
- **Governance arrangements** – what kind of an organisation are they, what policies they have in place, which documents they are providing you copies of as part of the application process.
- **Project/activity** – what the organisation is requesting funds for and how this meets the purpose of the scheme, start and end date of project activity and which area will benefit from the funding.
- **Funding** – the amount of money the organisation is requesting and over what period, are they requesting the whole project costs, or are they match funding from other sources etc. A financial breakdown of costs for the project is important.
- **Priorities and Impact** – how will the project meet the aims and priorities of the funding scheme and what proposed impact will it have.
- **Need** – How has the organisation determined there is a need for the project to take place? What evidence has been considered?
- **Outcomes and beneficiaries** – what are the expected outcomes of the project and who are the beneficiaries?
- **Risks and contingency plans** – what are the risks involved if things do not go as planned and what contingency plans will the organisation will put in place if things go wrong.
- **Monitoring and evaluating** – how will the organisation monitor and evaluate the project when it is completed? Are there defined milestones for the project?
- **Success of project** – how will the organisation monitor the project to consider if it has been successful in achieving its outcomes.
- **Future plans** – what does the organisation hope to do following completion of the project.
- **Details of other funding -** has the organisation applied to the county council previously and if so what for? Is the organisation currently receiving funds?
- **Diversity information** – you may wish to collect diversity information about the organisation applying such as age range, what types of groups will predominantly benefit.
- **Signed declaration** – to declare that to the best of the applicant's knowledge they have provided information that is correct and accurate and that if they are successful in their funding bid they will use the funds only as detailed in their application.

Guidance Notes

Guidance notes should clearly detail the application process from start to finish for the applicant. The length and detail of guidance notes will depend on the complexity of the grant scheme. Consider the following general areas of advice that applicants need to know about in order to complete the application process:

- Criteria and priorities of the scheme
- What can and can't applicants apply for?
- Timescales and deadlines
- How much funding is available and when for
- Guidance about completing the application form
- Working with children and/or vulnerable adults
- How the application will be assessed
- Details of references if required
- Signed declaration from representatives of the organisation
- Checklist of what applicants need to submit with their application
- Next steps
- Contact information and how to submit applications

Organisations working with children or vulnerable adults

If organisations are working directly with children and/or vulnerable adults as part of the grant application, the organisation must have the necessary policies in place to do so and as a funder it is the county council's responsibility to ensure that they do. Organisations should also have the necessary staff/volunteer Disclosure and Barring Service (DBS) checks and clearance for all staff involved in the project.

As a general guide it is recommended that organisations provide the following if their application involves working with children and/or in regulated activity with adults. However, each grant scheme is unique and it is important to obtain the necessary legal advice and advice from the DBS Team:

- a copy of its policy on working with children and/or in Regulated Activity with Adults, and

- confirmation of an appropriate (Standard or Enhanced) DBS checks with appropriate Barred list checks, in accordance with DBS guidance, and for all persons involved with the project.

Possible exceptions

The following exceptions to the above requirements could apply if:

- If the application is for parents or guardians to undertake activities with their own children, there is no requirement for this.

- The need for DBS and checks to be undertaken in respect of applications for the purchase of equipment for working with children and/or vulnerable adults shall be considered on an individual basis, and having regard to the nature of the equipment and its link and use by children and/or vulnerable adults.

A standard or enhanced DBS check?

Standard check - Standard checks are primarily for posts in certain professions, such as members of the legal and accountancy professions.

Enhanced check - Enhanced checks are for posts involving a degree of contact with children and/or vulnerable adults. In general, the type of work will involve regularly caring for, supervising, training or being in sole charge of such people. Examples include a Teacher, Scout or Guide Leader, or Sports Coach. To be eligible for an Enhanced check an employee or volunteer must be working in either the current Regulated activity definitions or in the pre September 2012 definition. Guidance on eligibility is available at https://www.gov.uk/government/publications/dbs-check-eligible-positions-guidance

Definition of a vulnerable adult

The new definition of regulated activity relating to adults no longer labels adults as 'vulnerable'. Instead, the definition identifies the activities which, if any adult requires them, lead to that adult being considered vulnerable at that particular time. This means that the focus is on the activities required by the adult and not on the setting in which the activity is received, nor on the personal characteristics or circumstances of the adult receiving the activities. There is also no longer a requirement for a person to do the activities a certain number of times before they are engaging in regulated activity.

Here are six categories of people who will fall within the new definition of regulated activity (and so will anyone who provides day to day management or supervision of those people). A broad outline of these categories is set out below. For more information please see the Safeguarding Vulnerable Groups Act 2006, as amended by the Protection of Freedoms Act 2012.

- Providing health care
- Providing personal care
- Providing social work
- Assistance with cash, bills and/or shopping
- Assistance in the conduct of a person's own affairs
- Conveying

The Decision Making Process

A recommendation or decision is required to initiate the process of developing a funding scheme. Detailed planning should take place to ensure the principles and processes of how the scheme will operate in practice have been agreed before the scheme is launched. The decision to allocate funds to a grant scheme to meet a service priority must be approved through the appropriate management structure and Cabinet. Proposals should be discussed with the Finance Team early on to ensure the necessary funds are available and to determine the timeframe that the funding is available for. Consider any other advice you may need to take such as legal or specialist advice from the relevant service. It is likely you will require a decision to approve the application, assessment and selection process prior to launching the scheme. If your service reports to a committee or working group it would be appropriate to share proposals with councillors to gain their views. If you are unsure contact Democratic Services for further advice.

The decision to approve grants to outside bodies is a function of the Cabinet (unless specifically delegated to a senior officer). Once you have gone through the selection process (see page 13) and determined which application(s) should be recommended for grant funding you will need to ensure that your recommendations are presented in accordance with the county council's decision making process and ensure that a formal decision is completed to ratify recommendations. Advice from the relevant departments and services should be sought on funding recommendations prior to a decision being made so that all necessary advice is taken into consideration. A report clearly outlining the purpose of the grant scheme, details of the assessment and selection process, financial information and recommendations of funding and any other important considerations should be completed on the county council's online management system. Only once a formal decision has been made and any call in period has expired should the decision be relayed to organisations. All decisions relating to grants and public funds should be accessible to the public.

Timescales

Developing and launching a grant funding scheme can be a lengthy process and timescales should be realistic and appropriate. It is helpful for applicants that approximate timescales are provided so that they can plan their projects accordingly.

Consideration should be given to the following aspects of developing a grant funding scheme:

Seeking permission to develop a grant funding scheme – necessary approval to initiate the process of developing a grant scheme through the management structure and/or Cabinet.

Developing the scheme guidance – consider the length of time needed to develop the scheme guidance, the application form and supporting notes including defining criteria for the scheme, and the scoring system that will be used to assess and select applications. Consider if approval of your documentation is necessary before the scheme can be launched.

Applying to the scheme – applicants will need a suitable amount of time to apply to the scheme, as a minimum applicants should be provided with 5-6 weeks from notification of the scheme opening to the deadline date.

Assessing applications – It is not always easy to anticipate how many applications you may receive and often funding schemes are heavily oversubscribed. You need to factor this in as each application will need to be read through carefully, assessed against the criteria and scored and notes on recommendations made. If you need to arrange an assessment panel consider availability of panel members.

Approval of recommendations – Recommendations of funding will need to be approved through the relevant decision making process. If your report needs to be submitted to Cabinet or a Management Team meeting factor in these timescales including time to obtain the necessary financial and legal clearances for your report.

Grant funding agreements – Once you have a formal decision, the terms and conditions of the grant will need to be conveyed in a formal grant funding agreement. Depending on the complexity of the grant agreement you may need to seek advice from Legal Services. The organisation will also need time to read through the agreement and obtain any necessary signatures or meet any specific conditions.

Payments – Payment will be made not be made until a signed grant agreement is received and if an organisation is not set up on our payment system then this will need to be actioned first and can take a few days. Once payments have been issued they are normally received within 7-10 working days.

Monitoring and evaluation – Consider the project timescales and how long the organisation has to complete the project and factor in time to monitor and evaluate the progress, outcomes and success of a project. This should also include consideration of whether "clawback" of funds released but not used in accordance with the Grant Funding Agreement needs to take place

Future funding rounds – If you have not spent your budget following the first round of funding you may wish to consider launching your scheme again for a second round.

Advertising the grant scheme

Information about the availability of grants should be properly publicised to ensure as many eligible bodies as possible have the opportunity to apply and that the process is fair and equitable to all organisations. During election periods (either county council or borough council) grants should not be approved during the pre-election or purdah period.

Organisations should be given a minimum of 5-6 weeks to apply from notification of a scheme opening to the deadline date. There are many forms of information sharing which can be considered, **examples** are detailed below, this list is not restrictive:

Press release – A good way to get information out is the local newspapers. If your grant is specific to a certain area or covers the whole of Lancashire then consider a press release which can be shared in the local community. Corporate Communications can advise you whether a press release will be suitable for your scheme and can help prepare a press release.

County council website – Websites are often the first place potential applicants will go for further information and information about grant opportunities should be readily available on the county council's website. Guidance notes and application forms can easily be shared on the website and applicants can be directed to the website to apply or to find our further information.

Email distribution lists - Share the information widely with networks you have such as third sector organisations, clinical commissioning groups and other partners and ask them to share within their own organisations.

County Councillors – You can share the information with county councillors, for example through C-First or by emailing details of a new scheme to all county councillors so they can share it with their constituents.

The Assessment and Selection Process

An important part of the application process is assessing and selecting applications that will be considered further. Applications for grant funding should be assessed against the predetermined criteria provided to applicants to ensure an applicant is eligible. If an application has not met this criteria you can dismiss the application on the basis it has not met the criteria you set.

A process of selection for those applications that are eligible needs to take place that is thorough, fair and transparent. The selection process should be objective and ensure that chosen projects meet the aims and objectives of the funding scheme. The appraisal process should include a full financial assessment of the application and should consider the financial viability of an organisation and the funds available to them, for example by analysing financial accounts. If an organisation is unknown to the county council checks should be made to ensure they are a genuine organisation.

A scoring matrix can be developed to be used by those that will score the applications, giving weightings to particular areas of importance. A traffic light system such as Green, Amber or Red could be used to determine how applications are categorised and you may wish to consider a benchmark as the minimum score an applicant must score to be considered further. Consideration can be given to the below areas when assessing applications, these are just **examples** and each scheme will need to take into consideration its own purpose and uniqueness when assessing applications:

Governance arrangements – has the organisation all the necessary governance arrangements and policies in place that were requested? Has it submitted all essential information?

What the funds are being requested for - how well does this meet the project brief?

Location – location may be an important factor depending on what service provision already exists in certain arears.

Priorities – how well does the application meet the priorities you set for the scheme?

Need – is the project needed, how well has the applicant evidenced this? Could the application duplicate provision that is already available?

Benefit and Impact – what benefit and impact will the project make? How well does this meet your scheme requirements?

Outcomes – consider the outcomes of the project, are they realistic outcomes that are SMART (Smart, Measureable, Achievable, Relevant and Time bound)? How will they be measured and are project milestones realistic?

Monitoring and evaluation – how will the applicant monitor and evaluate the project? What steps will they put in place if outcomes are not achieved within the necessary budget or time frame?

Value for Money – does the application present value for money? Is the applicant seeking the full value of the project or have they sought match funding from other organisations?

You may consider setting up an Assessment Panel and seeking expert advice from the relevant service areas in helping you determine which applications should be taken forward. You may wish to appoint someone independent as an advisory role or to ensure impartiality in any recommendations made, you may want to consider county councillor input into the process as councillors have a good understanding of their local communities and the needs and priorities in their divisions. The assessment of applications should not be completed by just one officer, applications should be scored separately and if views differ significantly on an application you should seek to discuss this further and if necessary obtain further views.

Depending on the size and complexity of the grant scheme you may wish to incorporate a presentation or meeting with short-listed applicants to help determine which application should be taken forward.

Recommendations should be considered by the management structure including manager, head of service and if appropriate director prior to being recommended in a formal report for sign off. Applicants are within their right to request detailed feedback if they have been unsuccessful and notes on scores or officer comments on recommendations should be kept to aid the feedback process if necessary.

Grant Funding Agreements

All grants that have been awarded funds need to be covered by a grant funding agreement that is proportionate to the value of grant and which clearly details the terms and conditions of the grant. The grant funding agreement is an important document and describes the responsibilities of both the funder and the grant recipient in the funding relationship. Depending on the complexity of the grant funding agreement you may wish to seek legal advice from Legal Service to ensure that your agreement is fit for purpose.

As a minimum your agreement should clearly state the purpose for which the grant has been awarded for, the amount that has been awarded and the terms and conditions that must be adhered to by the applicant in receiving the grant. Any obligations the county council has to the funder should also be clearly detailed.

As a general guideline you may wish to consider the following options depending on the amount of the grant being awarded. The terms and conditions of a grant depend very much on what the grant scheme is about, the headings detailed below are just **examples** and you should obtain the necessary legal advice to ensure that the agreement covers all elements necessary in relation to your grant scheme.

Amount of Grant	**Type of agreement**	**Agreement terms and conditions: :**
Less than £1,000	Offer Letter	Purpose of the grant The amount of grant awarded Payment of grant Any specific terms and conditions Monitoring and feedback How to accept offer of grant Signed declaration from two independent signatories from organisation
£1,000 - £99,000	Grant Funding Agreement	Purpose of grant The amount to be awarded Payment of grant Any specific terms and conditions Project management and coordination Project monitoring and progress reports Evaluation Withholding or repayment of the grant Acknowledgement and Publicity Acceptance of terms and conditions Signed declaration from two independent signatories from organisation Signed declaration from responsible officer from the county council

Over £100,000	Signed and Sealed Deed	Definitions Intellectual Property Rights Confidentiality Freedom on Information Data protection Anti-discrimination Human rights Limitation of liability Warranties Insurance Duration Termination Assignment Waiver Dispute resolution Contracts (Rights of Third Parties) Act 1999 if applicable Governing law Signed and sealed deed from both parties Specific schedules could include: - Details of the project - Payment schedule - Any other specific conditions - Monitoring - Evaluation - Appendices of any supporting documentation

Consideration should also be given to the following areas:

- **Consultation about changes to the grant** – organisations should notify the county council about any changes to the project and await agreement of the changes from the County Council before the funds are spent.
- **Overspending** – the organisation should be held responsible for any overspend on the project, the County Council will not be liable for any costs in excess of any funding awarded.
- **Necessary consents** - Organisations should accept responsibility for ensuring they have all the necessary consents including planning, statutory and landownership. They also need to accept responsibility for ensuring there is appropriate insurance cover for the people and assets involved in the funded project.
- **State aid rules** – no organisation can receive grant funding, if to award a grant would contravene state aid rules, the onus of this lies with the organisation to ensure they have not contravened the state aid rules.

Senior Responsible Owner

All grant schemes should have a named senior responsible owner who has clearly defined responsibilities throughout the lifetime of the grant scheme. Grant recipients should be given details for a named officer so they can contact and report to them during the duration of the grant cycle. Officers responsible for grants should have the necessary resources and experience to ensure suitable controls are in place at each stage of the grant lifecycle.

The senior responsible officer should ensure that any recommendations for funding reflect county council policy and where appropriate advice from specialist officers has been sought to ensure that the proposed project represents value for money and will achieve the desired outcomes.

If a team of staff are responsible for the administration of a grant scheme then appropriate measures should be taken to ensure actions are not duplicated or missed.

Grant funding agreements should be signed by the Head of Service or most relevant senior officer and grant payments should be authorised by a manager or someone other than the member of staff who is requesting the payment.

Following completion of a grant funding scheme the responsible officer should carry out a formal assessment to consider whether the grant funding was used for its intended purpose and whether project outcomes were achieved.

Record Keeping and Data Protection

Running a grant programme can be complex, and due regard should be given to the internal processes and systems that are required to administer a grant scheme. It is likely that you will receive a significant amount of organisational data that contains sensitive information such as bank account details, names and addresses etc. As part of the monitoring stage you may receive copies of individual's contracts, wage slips or other personal data. This data must be handled appropriately and in line with government regulations around data protection principles. You must ensure that data is not kept longer than necessary and consider timeframes for removing files for applications that were unsuccessful in their funding application. Project files for successful applications should be kept for 7 years.

Appropriate systems should be set up to record necessary information, ensuring that only authorised staff have access to any sensitive information. The following list of **examples** considers information you may need to keep as part of your record keeping, this list is not exhaustive:

- A spreadsheet to record details of **all** applications received such as date received, details of supporting documents submitted, when the application was acknowledged etc. Consider giving applications unique ID numbers that will help to easily identify them.

- A separate folder should be created for each applicant to hold all relevant information about each organisation in one place such as application, constitution and accounts. If an applicant is successful then the grant funding agreement, details of payments and monitoring submissions should all be included. Keep copies of any correspondence from applicants either by post or email.
- Evidence of advice sought from colleagues, managers, councillors, or other authorities should be kept for the appropriate amount of time.
- Details of recommendations for all applications and scoring matrixes for an appropriate amount of time after the assessment, for example if an applicant requests feedback on why their application was not successful.
- Decisions relating to grant funding should be kept and made accessible to the public for example through the county council website.
- A copy of all the grant paperwork such as guidance notes and application form should be kept so that you can refer back to this when necessary.

Finances

Keeping good control over the financial elements of your grant scheme is extremely important. You must keep accurate records detailing all financial information and details of payments to help ensure that organisations have not been paid incorrectly and that overpayments in your budget are not made.

Payments should be authorised by a manager who can access the funding decision to check the amount awarded against the amount being paid. Random checks on payments should be carried out periodically by management.

At the end of the financial year you should complete budget monitoring and produce a year-end financial profile for your budget and share this with the Finance Team so that all grant payments can be reconciled and accounted for on their systems. Details of any grant payments that have been authorised but not paid (for example instalments of grant funding) should be shared with Finance so that unpaid amounts can be accrued into the next financial year to ensure the funds are not lost.

Payments

Grant payments are made through the county councils online Oracle system. The grant payment should only ever be authorised following the grant funding agreement being signed and agreed by both parties. This will ensure, if necessary the county council is able to take action if an organisation has failed to comply with any of the grant conditions. Grant payments should only be made to the organisation that has been awarded the grant and necessary checks should be made to confirm the bank details for the organisation. If the organisation has not received funds from the county council previously they will need to be set up as a new supplier which can take some time to process. Payments are made via BACs and can take 7-10 working days to reach an organisations' bank account.

It may be appropriate to consider splitting payment of grant monies depending on the amount being granted to satisfactory monitoring submissions. This will encourage the timely return of monitoring information and allow the county council to address any concerns in delivery of outcomes prior to releasing the next funding instalment.

Monitoring and evaluation

Grants are funded from public funds and there is a need to ensure that all grant funds are spent lawfully on the activity detailed in the original application for which they were awarded. To this end all grants should be monitored. Monitoring is the process of gathering and recording information on a regular basis, and keeping account of progress and work against a set of agreed objectives, targets and indicators. The onus of submitting timely monitoring information lies with the grant recipient and this should be made clear in the terms and conditions. If necessary, reminder letters or emails should be sent to applicants to ensure monitoring is submitted. In most cases it will be appropriate to monitor both the outcomes as well the financial spend and larger grants should be subject to further scrutiny to ensure public funds have been spent in accordance with the terms and conditions set.

Depending on the size and complexity of the grant programme, monitoring may be requested at the end of the project, or at particular time intervals for example bimonthly, quarterly, or at 6 monthly intervals and then at project completion. If the funding is to be paid in instalments to the applicant, this could be linked to satisfactory monitoring reports which would help to encourage timely submission of monitoring and provide the county council with some leverage if grant outcomes and targets are not being achieved.

Examples of things you can request to monitor the grant could include:

- Financial evidence of spend for example:
    - Copies of invoices and receipts related to the spend
    - Copies of the relevant pages of the organisation's bank statements showing the payments going through the bank account
    - Copies of the petty cash sheet showing cash transactions
- Detailed information on whether the grant met the desired aims and outcomes of the grant
- Copies of any press reports or promotional materials relating to the funding
- If appropriate, photographic evidence of the project/activity.

It may be appropriate to visit the organisation during the lifetime of the funding agreement to meet with them and discuss progress.

As part of the grant funding agreement the county council should reserve the right to view all necessary paperwork in relation to the grant including child protection/vulnerable adult policies and procedures; equal opportunities policies; health and safety policies; environmental policies; complaints procedures and quality assurance scheme certificates at any time.

Organisations should be informed that all evidence and documents relating to their funding application must be retained for a period of seven years from the end of their project; we should outline this date in our closure letter to the organisation.

Applicants should be encouraged to complete a final evaluation report at the end of the project which evaluates the overall project and how it met the aims and objectives of the grant scheme. Evaluation should include a judgement on the quality of progress and work, and its success against expectations and stated aims. The evaluation should look at the outputs or results and the impact of what has been done against the original problem.

Support from other Services

Corporate Communications – You may wish to speak to Corporate Communications about how you can advertise your grant scheme across Lancashire or ensuring details of your grant scheme and how to apply are available on the Lancashire County Council website.

Democratic Services – Does your proposal to develop a funding scheme need approval by the Cabinet or an individual Cabinet Member or will it be agreed by a Senior Officer through the Scheme of Delegation? If you are unsure you can contact Democratic Services for advice. Democratic Services can also provide examples of the following documents to help aid the process of setting up a grant scheme:

- Application forms
- Guidance notes
- Scoring matrix
- Example spreadsheets

Legal – Prior to launching a scheme it is recommended that legal advice is sought to ensure that the terms and conditions of the grant scheme you are proposing are permissible and that due regard has been given to your proposals. Legal advice should also be sought when developing the Funding Agreements and Contracts to ensure the Agreement covers the necessary level of detail depending on the size and nature of the grant.

Finance – Prior to launching your scheme you need to ensure that the funds are available and your Finance Team is aware that you intend to spend the funds in this manner. The Finance Department will need to be informed about any payments you intend to make and they will need to ensure that the monies have been taken from the correct budget code. If you have concerns about the financial stability of an organisation you may request Finance to look at the accounts of an organisation to help form a view. Finance also may be able to offer support or advice in the monitoring of the financial evidence once an organisation has completed a project.

DBS Team – Organisations working with children or vulnerable adults must ensure that they are complying with the requirements of the Disclosure and Barring Service. The DBS Team are available to provide advice in relation to DBS requirements and can help to check that the guidance you are issuing is correct and meets the necessary requirements.

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 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