

ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2016/17

THE PURPOSE OF THE ANNUAL GOVERNANCE STATEMENT

Local authorities are required by the Accounts and Audit Regulations 2015 to prepare an Annual Governance Statement (AGS) which reviews the effectiveness of their system of internal control and to include this within their Statement of Accounts.

The Regulations stipulate that the AGS "*must be prepared in accordance with proper practices in relation to accounts*" which requires the AGS to be in accordance with the Framework prepared by CIPFA/Solace "*Delivering Good Governance in Local Government*" (2016 edition). The Framework defines the principles that should underpin the governance of each local authority.

The AGS is a public statement of the extent to which a local authority complies with its Code of Governance, which is in turn consistent with the good governance principles set out in the Framework. The process of preparing the AGS is intended to add value to the effectiveness of the governance and internal control framework and is an opportunity to explain to the community and stakeholders how the controls that are in place manage the risks of failure in delivering outcomes; it should reflect the local authority's particular features and challenges.

In particular the AGS should include:

- How issues raised in the previous year's AGS have been resolved;
- An acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the local authority's Code of Governance;
- Reference to and assessment of the effectiveness of the key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment;
- An opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose;

- An agreed action plan showing actions taken, or proposed, to deal with significant governance issues; and
- A commitment to monitoring implementation as part of the next annual review.

GOVERNANCE ISSUES IN 2015/16

At its meeting held on 30 June 2016 the Audit and Governance Committee considered and approved the AGS for 2015/16 and at its meeting held on 26 September 2016 approved an updated version of the AGS for inclusion in the Council's Statement of Accounts.

The External Auditor's Annual Audit Letter for the year ended 31 March 2016 concluded that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness except for the following matters, resulting in the External Auditor's value for money conclusion being qualified:

Ofsted inspection of Children's Services

In November 2015 Ofsted published its report on the outcome of its inspection of Children's Services, rating the services overall as "inadequate". An Improvement Notice was subsequently issued by Ofsted and an Improvement Board established with an independent Chair, responsible for developing an Improvement Plan which was subsequently approved by the Department for Education.

The Improvement Board meets on a monthly basis to consider progress against the Improvement Plan. Having initially appointed an Interim Director of Children's Services, shared with Blackburn with Darwen Borough Council, a new full time Director of Children's Services was subsequently appointed, starting in post in February 2017.

In addition to the Improvement Board, the Council has established a Children's Services Scrutiny Committee and a 0-25 Board. Significant extra resources for Children's Services have been agreed by the Council's Management Team.

Since the judgement as inadequate by Ofsted in autumn 2015, there has been a strong commitment to improve services quickly and to ensure that children are safe, protected and supported.

A significant range of activity has been implemented and will continue to be built upon until practice is consistently good and outcomes for children are improved. Below is a high level summary of some of the work that has been undertaken since the last AGS to improve services for vulnerable children in Lancashire.

Strategic direction, leadership governance and oversight

- **Permanent Director of Children's Services Appointment** – Amanda Hatton has now been in post since February. Linda Clegg continued in her role in Lancashire to the end of March to ensure a seamless transition of responsibilities and is now working one day per week to provide additional leadership capacity.
- **12 Week Improvement Plan** – the Council's approach is to focus on short term priorities delivered at pace. The fourth 12 week plan has been agreed by the Improvement Board and will prioritise support for Children Looked After and care leavers

Demand management and sufficiency

- **Resource Panels** – have been established in each locality since February 2017. Chaired by social care Heads of Services, the panels consider all new placement decisions, placement changes and placements due for review to ensure a consistency of approach and appropriate challenge to decision making.
- **Access to Resources Team** – the team has been in place since February 2017 and provides capacity in terms of placement finding, placement costs, effective commissioning and market management.
- **Reshaping the in house provision** – piloting a four bed Adolescent Support Unit to provide respite/short breaks for teenagers on the edge of care, alongside crisis units and complex needs units.
- **Residential Outreach** – recently agreed to increase capacity of this team to specifically support Section 20 children and young people based in external placements.

- **Family Group Conferencing** – exploring proposals to increase Family Group Conferencing (FGC) capacity, building on an existing FGC team with a strong track record in achieving improved outcomes for children and families.

Participation and recognition

- **PROUD Awards** – this annual celebration/recognition event was held on 3 March 2017 for Children Looked After and Care Leavers who received awards for their achievements from the Chief Executive, elected members and senior leaders.
- **LINX (Children in Our Care Council)** – have recently inspected Grange Avenue and Eden Bridge and also the central fostering team. Through LINX the young inspectors have also been involved in Child Sexual Exploitation (CSE) prevention week, inspected a real CSE case and reported back to the police their findings.
- **Takeover 2016** - in November over 140 children and young people took part in our annual Takeover month event which originated here in Lancashire. Highlights included young people 'taking over' the Improvement Board, a Takeover meeting with the Children's Commissioner Anne Longford and our annual CSE conference.
- **Participation awards** – children and young people supported by the County Council have won three of the four awards on offer at the national British Youth Council Awards. The Inspiring Project Award – won jointly by the Fostering and Adoption team and the Children with Disabilities Council; the Make a Difference Award - won by Will Rainford and the Youth-led Award – won by LINX, the Children in Care Council.
- **Diana Award** - 20 members of LINX and POWAR were awarded a prestigious Diana award for their work in the community with Young Inspectors. The group was recognised for their commitment to making a change for the better in organisations that provide a service to children and young people in care and/or with special educational needs and disabilities.

Workforce recruitment, retention and development

- **Risk sensible** – a "risk sensible" model, that assesses risk rather than simply seeking to avoid it entirely, continues to be implemented and over 250 staff have now been trained. Plans are now also in place to train staff in the Wellbeing, Prevention and Early Help service and partner organisations are also interested in understanding and practicing in line with the risk

sensible approach and funding has been agreed by the Lancashire Safeguarding Children Board (LSCB) to facilitate this.

- **Recruitment drive** - a recruitment campaign has been ongoing since the summer 2016 and has been successful in recruiting to various roles in children's services. To date more than 188 permanent posts have been recruited to including social workers, team managers and independent reviewing officers.
- **Workforce Strategy** – at the April 2017 Improvement Board a two year workforce strategy was agreed. Within this a number of developments will be progressed including the establishment of a social work academy, a health and wellbeing strategy, improved support and training for managers and clear career pathways. The areas of Fylde, Wyre and Lancaster will provide a specific focus for this work given the particular recruitment and retention difficulties in the north of the county. A comprehensive performance dashboard is being established and targets set that will be monitored through the Operational Improvement Group.
- **Aide Memoires** – the Operational Improvement Group produced a simple guide to some of the core tasks that social workers undertake. The purpose of the guide was to describe these tasks in a simple and straight forward way but also to articulate why these tasks are undertaken. The original intention was that the aide memoires would be a useful reference tool for newly qualified social workers but they have also proved useful for partners to understand social work practice and have been shared through the LSCB and incorporated into the schools safeguarding training programme.

Capacity

- **Framework agreement** – Skylakes are no longer taking on new work and assessments on behalf of children's social care and robust plans were implemented to ensure that the increased work coming into social care as Skylakes stepped back was effectively managed.
- **Child Sexual Exploitation** – the support provided to children at risk of sexual exploitation has been reviewed and through this some areas for improvement were identified. As a result a new approach has been implemented for working with these vulnerable children that is based on national research, inspection findings and effective practice in other local authorities. A multi-agency action plan has been agreed through the LSCB to drive forward improvements

and the County Council has invested an additional £600k to fund 19 new posts to support this plan.

- **Caseloads** - all parts of the social care workforce have shown reducing caseloads over the last few months. And these caseloads are now within the agreed thresholds that have been set by the Improvement Board as 'good' or 'outstanding'.
- **Front door** – an additional seven qualified social workers began working in CART in January 2017 to focus on 0 – 10 day statutory assessments. Further to this, a temporary resource of three qualified social workers and one business support has recently been agreed to address some identified issues at the front door regarding some cases experiencing delay and some cases not being appropriately signposted.

Communication and engagement

- Director of Children's Services (DCS) briefings – in April 2017 over 350 staff across children's services participated in the third round of staff briefings led jointly by Amanda Hatton and Linda Clegg. The purpose of these staff briefings is to ensure the workforce is fully aware and able to inform improvement and to share and discuss the key priorities moving forwards. The evaluation feedback from these briefings has been extremely positive and 95% reported a better understanding about the progress in delivering the improvement plan and 96% had a better understanding of our current and future priorities.
- **DCS Blog** – Amanda Hatton has recently begun sending out a weekly blog to all staff to highlight recent news, information and developments and keep people posted on what she has been doing.

Better understanding of ourselves

- **Project Accuracy** – after two waves of project activity since April 2016, significant improvement to the accuracy of information in the Lancashire Children's Services (LCS) system has been achieved and in March 2017, all of the metrics under review were measured by Practice Managers at 90% accurate or above. There has been an effective project handover from Newton Europe to the County Council and a Performance Management Framework has been agreed and implemented and weekly/monthly reports are made available to inform service developments.

- **Audit Framework** – work continues to embed the audit tools with a particular focus on 'closing the loop' through weekly reporting via an audit tracker. The framework has now been rolled out across the Special Educational Needs and Disabilities service with a revised tool developed, staff trained and a first cycle of full audits took place across the service in March 2017. An implementation schedule has also been agreed to roll the framework out across fostering and adoption services and the first set of audits is expected to take place in June 2017.
- **Improvement Performance subgroup** – this multi-agency sub group of the Improvement Board continues to meet on a monthly basis to analyse and scrutinise key performance data. The group has recently agreed the following set of themes for future focus and the Improvement Board dashboard has been refreshed and framed around these new themes. These themes include: Early Action/Early Help; Front Door – Multi Agency Service Hub/CART; Practice thresholds; Sufficiency/Adoption / Permanence; and Workforce.

Practice Improvement Model (PIM)

- **Fylde and Wyre** – the PIM is an opportunity to test out new processes, systems and ways of working to improve outcomes for children and families. There are five areas in the PIM Project Plan: Improving and embedding quality practice; Management and staffing; Keeping services local; Working in partnership, and Improving systems and processes.
- **Evaluation** – a full evaluation of the PIM is now underway, identifying the learning and impact from the development of new ways of working
- **Roll out** – following evaluation, a clear plan will then be developed that describes how the key developments and learning from the PIM can be embedded across the rest of the county. It is expected that this roll-out begins in early June.

More information and plans relating to the improvement journey can be found at [Lancashire Children's Services Improvement Board](#)

The work of internal audit being insufficient to provide an opinion on the overall system of internal control at the Council

The Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control in both 2014/15 and 2015/16 because of the limited nature of the internal audit plan for those years.

The reasons for this has been dealt with in each year's AGS and in January 2016 the Audit and Governance Committee approved the "Internal Audit Plan 2015/16, 2016/17 and beyond". The AGS for 2015/16 noted that this Plan, if delivered, would enable the Head of Internal Audit to reach an overall conclusion on the system of internal control and Management Team gave an unequivocal assurance that sufficient audit work would be undertaken to ensure that this was the case.

In her Annual Report for 2016/17 the Head of Internal Audit provides her opinion that the Council's overall frameworks of governance, risk management and control can be given only limited assurance. The reasons for this overall opinion are set out in her report but the particular governance issues that it identifies continue to be the outcomes of the Ofsted inspection and the Council's continuing financial challenges. This report provides an update on the present position in respect of both issues and considers the implications of each issue for 2017/18.

SIGNIFICANT GOVERNANCE ISSUES IN 2016/17

The AGS for 2015/16 identified a number of continuing or emerging risk areas. All of these risk areas have been the subject of detailed reports to Cabinet and/or committees or Full Council. Table 1 provides an update in relation to each area.

Table 1

No.	Issue	Action	Update
1.	The establishment of the Local Pensions Partnership (LPP)	<p>Full Council approved the establishment of the joint venture in March 2016.</p> <p>The Employment Committee have subsequently approved pay proposals in relation to senior staff in LPP, a Remuneration Policy and proposals in relation to the transformation of the Administration Business.</p> <p>Regular shareholder meetings have also now been established</p>	<p>Agreement has now been reached with LPP in relation to the transfer of the Council's Treasury Management work to LPP. However, in view of the reduced levels of funding available to the Council which can be invested for Treasury Management purposes the Director of Financial Resources is to propose a revised approach which will be presented to the Audit and Governance Committee for consideration.</p> <p>Preparatory work is also being undertaken in relation to the potential for an additional shareholder to join the company</p>
2.	Waste Management – valuation of waste plants and cost saving measures	In February 2016 the Council's waste company was requested to change how it delivers various waste processing operations at the two waste recovery parks in Farington and Thornton. These changes were intended to realise an £8.5 million per annum reduction in waste processing costs and necessitated a major restructuring of the company; along with works to preserve any redundant assets in anticipation of a long term strategic review of waste processing requirements.	<p>Waste processing changes have been successfully implemented at the two waste recovery parks and the transformation of the waste company completed. The anticipated cost reductions as a result have been achieved.</p> <p>Separately a soft market testing exercise has been conducted to consider future processing options and trials are underway to review different operating methods. The council is in the process of seeking markets for the supply of refuse derived fuel (an outcome of the current process) to reduce disposal costs further.</p>

		<p>In September 2016 the Committee received a report from the Director of Financial Resources concerning the valuation of the waste plants, an issue identified by the External Auditor as requiring clarification.</p> <p>It was reported that an independent review of the valuation of the plants had concluded that there would be a reduction in accounting valuation through the change in use proposed but that this was not material and did not therefore require a change to be made to the Statement of Accounts.</p> <p>A review of the council's Household Waste Recycling Centre and Transfer Station services was conducted in 2016 in order to consider options for their delivery beyond the expiry of the current operating contracts in March 2018.</p>	<p>In March 2017 the Deputy Leader and Cabinet Member for Environment, Planning and Cultural Services agreed decisions relating to the future operation of HWRCs and waste transfer services including the recommissioning of these services on the basis of the in-house provision of the site operations and the separate procurement of services for transport and waste processing. The change of operating model will involve the TUPE transfer of staff to the Council of staff currently engaged in the delivery of the service.</p> <p>The re-commissioning from 1 April 2018 is on the basis of the current level of service provision in terms of the current network of sites, staffing levels and existing opening hours.</p>
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3.	The Council's financial position	<p>In September 2016 a report provided by PricewaterhouseCoopers (PwC) validated the work previously undertaken by officers in relation to the Council's budget gap for the years to 2020/21.</p> <p>The report concluded that the Council is forecasting a cumulative deficit of £398 million by 2020/21 and that even if the Council were to reduce its level of expenditure to the lowest quartile cost for all services it would still face an in-year deficit of £79 million and a cumulative deficit of £227 million by 2020/21.</p> <p>The report also concluded that the current funding model for the Council is disproportionately contributing to the funding gap. As a result the Council has continued to lobby government and stakeholders regarding the extreme financial challenges facing the Council.</p>	<p>The Statement of Accounts for 2016/17 include a narrative statement highlighting the most significant financial issues for the year.</p> <p>The narrative report sets out the outturn position on the Council's revenue and capital budgets, noting that the revenue underspend of £19.542 million was largely due to the achievement of agreed in-year savings targets and additional income of c£23 million from treasury management activities.</p> <p>The report also confirms capital expenditure for the year of £144.7 million, c93% of budgeted spend.</p> <p>The financial challenge facing the Council continues to be the key governance issue for 2017/18.</p>
4.	Organisational transformation	<p>Phase 2 of the Council's transformation process has been in progress throughout the year with service structures being subject to consultation, agreement and implementation procedures.</p> <p>Employment Committee has agreed a revised Compensation Payment Policy which provides 12 months' pay protection for staff suffering a detriment in</p>	<p>Consultation with recognised trade unions is ongoing and a new HRT1 has been served on them, recognising the need for further compulsory/voluntary redundancies to achieve necessary budget savings.</p> <p>Following agreement to a new Compensation Payments Policy it has been agreed with the trade unions that further discussions will commence later this year to consider what</p>

		pay as a result of transformation	arrangements will apply after transformation is complete. S.188 consultation meetings continue to be held on a 2 weekly basis
5.	Health and Social Care integration	<p>In February 2017 Full Council received an interim draft report from PwC in relation to a potential Public Service Delivery Model for Lancashire, setting out a vision for integrated and sustainable public service delivery.</p> <p>It was reported that whilst the principles underlying the proposals have been, in the main, supported by the NHS, concerns have been expressed by some NHS organisations regarding specific proposals in the report.</p>	<p>Full Council agreed to refer the report back to PwC asking them for their final report so that it can be given meaningful consideration and proper consultations can take place with other interested parties.</p> <p>Cabinet will now be consulted on how they wish to proceed with possible models for integration</p>

6.	A Combined Authority for Lancashire	<p>In March 2016 Full Council agreed that the Council become a constituent Member of a Lancashire Combined Authority and that in the interim agree to form a shadow Combined Authority. It was also agreed that any future proposals for a devolution deal be brought back to Full Council for approval</p>	<p>Following the March 2016 decision the constituent members have awaited a response from government confirming that the necessary draft Order establishing the Combined Authority could be laid before Parliament.</p> <p>However, no formal response from government has been received and at the last meeting of the Shadow Combined Authority it was also accepted by all local authority leaders present that it was unlikely that all of the constituent members would be able to secure approval to the proposals such that the draft Order could be laid.</p> <p>It was however agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and the constituent members would therefore continue to meet on a regular but informal basis.</p> <p>Cabinet will now be consulted on how they wish to proceed.</p>
7.	Implementation of the Council's Property Strategy	<p>On 26 September 2016 Cabinet agreed to the implementation of the proposed Property Strategy, involving in particular the closure of identified children centres and libraries. The former Deputy Leader of the Council subsequently agreed in principle to the community asset transfer of a number of premises, some of which were to be established as independent community libraries.</p>	<p>Following the change in the Council's political control on 5 May 2017, the new Administration have confirmed their commitment to re-open some libraries that have closed and will review proposed asset transfers, therefore any pending transfers have been put on hold.</p>

8.	ICT Strategy, systems development and data quality	<p>In September 2015 the Ofsted report on Children's Services raised concerns about the Liquid Logic system and its ability to produce reliable information on which decision making could be based.</p> <p>A report was presented to the Audit and Governance Committee in September 2016 informing the Committee of the progress that had been made in improving the system and processes for recording and maintaining accurate data within the system. Many of these new arrangements have been reflected across all of the council's main systems and include:</p> <p>Process for reflecting changes in hierarchies and staffing changes in all systems developed and implemented;</p> <p>Development and implementation of system roadmaps that set out planned system changes and timescales.</p> <p>Governance process for approving new developments and monitoring progress.</p> <p>Creation of a systems team to support and deliver system development and provide ongoing support to users.</p>	<p>Learning from the working group in relation to Children's Services will now be applied to the Liquid Logic Adults systems.</p> <p>An update report to the Audit and Governance Committee at its meeting on 26 June 2017 provides a further update on progress made and challenges.</p> <p>In summary good progress has been made in cleansing data that affects payments to providers. The underlying data also influences other key activity including financial planning and forecasting. A programme of work has also been developed to ensure that changes resulting from new commissioning arrangements are managed at an early stage and do not present problems once the new frameworks are launched.</p> <p>The operating model has also been changed to ensure that the Council has a sustainable model for creating and maintaining accurate data within the adults system.</p> <p>More work is needed on the wider accuracy agenda and a small working group is being established to oversee this programme of work.</p> <p>Other systems are under development for the 2017/18 financial year including:</p>
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	<p>A working group chaired by the Deputy Chief Executive to oversee and drive improvement in data recording was also set up. This group also focused on the development of key performance reports required in order to meet statutory and service requirements.</p> <p>It was reported that significant progress had been made and this had been acknowledged by Ofsted but that a continued programme of improvement and governance was still required to ensure that a culture of accountability for systems and data becomes an embedded part of social care.</p> <p>A number of other key systems were implemented and went live in 2016/17 including;</p> <ul style="list-style-type: none"> - Genesys (replacement to the Council's telephony system) - Property Asset Management - Highways Asset Management - Project and Programme Management system (PPMS) <p>These systems replace existing ones that were end of life. The Highways Asset Management System has replaced 24 existing systems with one solution.</p>	<ul style="list-style-type: none"> - Early Help module - Education, Health and Care Plans - Education Management System (including a new online school admissions system) - Police integration (Early Action) <p>Given the scale of these projects and the impact on service delivery, separate project boards have been established to oversee the implementation process.</p>
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THE HEAD OF INTERNAL AUDIT'S OVERALL OPINION FOR 2016/17

The Head of Internal Audit's overall opinion as set out in her Annual Report is that she is only able to provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2016/17. There are a number of areas of the Council's operation where managers have accepted that they are unable to themselves provide assurance over the effectiveness of controls and therefore audits have been deferred until managers are themselves satisfied that improvements have been made. That position, taken with the continuing financial challenges facing the Council and the Ofsted judgement in relation to Children's Services, means that she could provide only limited assurance overall.

However, the Head of Internal Audit has also reported that, despite the instability arising from the changes taking place across the Council, there are some areas where strong control is exerted over the services being provided and systems operated, and the Internal Audit Service has provided substantial assurance in relation to a number of the Council's systems and services.

THE COUNCIL'S SYSTEM OF GOVERNANCE – THE CODE OF CORPORATE GOVERNANCE

Corporate governance is about the systems, processes and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

The Council has adopted a Code of Corporate Governance which follows the CIPFA/Solace guidance "*Delivering Good Governance in Local Government*" (2016) which defines the seven core principles that should underpin the governance framework of a local authority:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;

- Developing the Council's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Code of Governance is reviewed annually and the outcome reported to the Audit and Governance Committee. It sets out the requirements underpinning these principles and how the Council ensures that it meets them along with the evidence base used to assess their effectiveness.

THE EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's review of the effectiveness of its governance framework is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's updates and annual report, including her overall opinion, and the observations from the External Auditor and other inspectorates.

The regular and ongoing processes that have been applied to maintain, review and improve the effectiveness of the framework include:

- Regular review of the Council's Constitution and ethical governance arrangements by the Monitoring Officer;
- Reviews of financial controls by the Director of Financial Resources;
- Reviews and updates of the Corporate and service Risk Registers;
- The work of Internal Audit and the outcome of individual audits of services;
- The work of the Council's scrutiny committees and the Audit and Governance Committee;
- The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews;
- The consideration by the Cabinet Committee on Performance Improvement of regular quality of service reports;

- Assurance provided by Management Team in respect of the internal controls for which they have responsibility, in particular their scrutiny of regular budget and performance reports including the delivery of savings targets within the Medium Term Financial Strategy;
- Regular briefings on key corporate governance issues to directors and heads of service.

GOVERNANCE CHALLENGES IN 2017/18 AND ACTIONS TO BE TAKEN

The County Council's elections in May 2017 resulted in a change of political Administration from a minority Labour Administration to a Conservative Administration with an overall majority.

The change in Administration will undoubtedly result in revised Council policies across a wide range of service delivery areas, for example in relation to the Council's current Property Strategy where decisions made to close a number of libraries will be reviewed.

The new Administration have also confirmed that they intend to review the Council's current Corporate Strategy with a view to a report being considered by Full Council in February 2018.

On a wider policy front the new Administration's approach will involve policy development sessions with the Cabinet, Lead Members and Management Team addressing key strategic issues such as health and social care integration. Cabinet will also be fully briefed as a priority on the Council's budget and financial position.

The Council's financial position

Notwithstanding the scale of the financial challenge facing the Council, it has a statutory duty to set a legal, balanced budget. The Director of Financial Resources, as the Council's "s.151 officer" who is responsible for the financial management of the Council, is required by s.114 of the Local Government Finance Act 1988 to report to Full Council if he considers that the Council's expenditure is likely to exceed its resources. In these circumstances the Council must then consider the report within 21 days and decide what action, if any, it proposes to take in response.

If the situation is unresolved and the Council is unwilling or unable to set a balanced budget then the External Auditor may intervene and has powers to issue an Advisory Notice if she considers that the Council is about to take a decision which involves, or would involve, the Council incurring

expenditure which is unlawful. If the situation is not resolved to the satisfaction of the External Auditor she has the power to apply for judicial review of the decision or a failure to act and would seek an order prohibiting the decision being taken or requiring it to be reconsidered.

It is in that context that the financial challenge facing the Council identified in the Director of Financial Resources' Narrative Report must be regarded. It follows that one of the key priorities of the Council in 2017/18 will be to identify ways in which the Council can deliver statutory services within a much reduced budget.

This will be a key focus of the Council's new Administration and it is anticipated that the need to achieve budget savings will be a primary consideration in future policy decisions. The previous Administration had requested Management Team to identify the potential impact on service delivery, and the level of savings that would be achieved, if all services were funded at the lowest quartile of benchmark authorities' costs. The outcomes of this work will now be considered by the new Cabinet to assist them in formulating policy decisions and identify where savings can be achieved.

Governance challenges cover all aspects of this process, some of which are highlighted here:

- In bridging the financial gap, the Council must ensure appropriate governance is in place to provide assurance that the impacts of policy decisions do not disproportionately affect parts of the community. Extensive work will be undertaken to consult with the public on proposed changes and respond to the concerns raised.
- Successive years of funding reductions may now mean that budget saving will in future look to areas of service that support statutory provision that are already under significant demand pressure. Even when funding flexibility decreases and demand for services is rising, the Council is obliged to ensure that the legal rights of citizens to receive services are protected. The legal risks posed by each policy option will be made clear to decision makers.
- Whilst policy options may be developed and agreed, delivering significant service transformations or even ceasing services can present huge logistical, legal and financial challenges requiring a great deal of specialist expertise to implement in the required timeframes. Performance management protocols will be put in place to oversee the process including oversight by Management Team.
- Because reserves continue to be used to support areas where budget savings require additional time for implementation or further funding, their levels are expected to diminish by

2018/19. The Council's financial controls will be updated to address the implications, providing clarity on the Council's procedures for authorising investment decisions funded by reserves, the adequacy of provision for unexpected events, and liquidity.

- Although budgets are agreed annually, the Medium Term Financial Strategy has formed the backbone of the Council's financial considerations for a number of years; indeed, it is over this timeframe that the financial position presents a radically different challenge in terms of the scale of the savings to be achieved. The Council will work with partners in district councils and the NHS to identify areas where joint benefits can be derived, without creating unnecessary bureaucracy.

Delivery of the Ofsted improvement plan

The focus for improvement activity will continue to be driven through the Improvement Plan and the cycle of 12 Week Improvement Plans. The following are some key priorities for the future:

Getting the basics right - working with staff to ensure that there is a clear understanding of the expectations for every child's case and that this understanding is consistent across the workforce. Every case should have a timely assessment, the child should be seen regularly and these visits should be purposeful, there should be a SMART plan in place and this should be outcome focused and informed by the child and recording on LCS is up to date.

Management oversight - further work needs to be done to ensure that strong and effective management oversight is embedded consistently across the county.

Leadership – ensure that the transition to new post holders at DCS and Head of Service level is seamless and enables a continued focus on existing improvement plans, priorities and strategies.

High numbers of social workers with low levels of experience – whilst we have managed to significantly increase capacity across children's social care it has been extremely challenging to recruit experienced social workers. A 12 month plan has been developed that will prioritise the development and retention of existing staff to build their skills and experience.

North Lancashire – there are ongoing challenges in recruiting and retaining qualified and experienced social workers in Fylde, Wyre and Lancaster. As part of the above 12 month workforce plan we will implement a bespoke approach for north Lancashire to address the specific issues found in this part of the county.

Caseloads – whilst average countywide caseloads are good there are still particular teams and specific parts of the county where caseloads are higher than we would like.

Residential Strategy – ensure implementation at pace of the recently agreed two year strategy including the development of a reshaped in-house provision.

MASH/CART Redesign – working with partners to improve access to services that are more effective in ensuring that vulnerable children can quickly receive the right support and protection they need.

Practice Improvement Model – identify and roll out across the county the improved ways of working that have been developed and will have maximum impact.

Risk sensible model – continue to embed a risk sensible approach across practice and through the LSCB begin the roll out of the risk sensible model to partners.

Audit activity in fostering and adoption – the existing audit model is being revised to ensure that by June 2017 fostering and adoption cases will be more effectively audited: tools are being amended and training is planned for all fostering and adoption managers.

Health and social care integration

Health and social care integration is seen as one of the key drivers for public sector reform whilst also providing a means by which the demand pressures experienced by Health and Social care can be managed within constrained budgets.

Collaborative working must be underpinned by appropriate strategic alignment across all the relevant organisations that can lead change. However, the organisational landscape in Lancashire is complex, with six Clinical Commissioning Groups (CCG) and other health economies that overlap into the County Council's responsibilities.

The Better Care Fund (BCF) continues to be supported by government to provide a formal platform from which some aspects of funding can be pooled and services jointly managed. The County Council will continue to be the host partner for the fund in 2017/18. A new Better Care Fund Plan will be required for 2017-19 (this will now be a 2 year plan). The plan will need to be based on national planning guidance, which has not yet been produced, however there are indications of what will be required and these are being used to help develop a draft plan. This involves working in partnership with all of the CCGs. The plan will need to ultimately be agreed by the Health and Wellbeing Board.

BCF resource will be focused around those programmes that can deliver the greatest amount of change to enable successful programme delivery and maximise integration benefits. There is a recognition that the government expects to see High Impact Change Programmes form part of new BCF plans, and this will be prioritised through the Council's contribution to the Better Care Fund Steering Group with emphasis placed on projects that have clear and quantifiable objectives.

The Council's approach to health and social care integration will be considered by Cabinet in the context of the Sustainability and Transformation Plans for Lancashire and South Cumbria and the developing government agenda.

MONITORING IMPLEMENTATION

The key governance challenges facing the Council in 2017/18 are identified risks in the Council's Corporate Risk and Opportunity Register.

The governance arrangements relating to the Register involve its review by Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a risk score and a residual score after mitigating actions have been applied as well as the direction of travel.

Regular updates of these key risks will reflect the implementation of the new Administration's policies. It is anticipated that this will initially involve amending the Council's current budget to deliver manifesto commitments. Subsequently Cabinet will consider how it wishes to address the financial challenge facing the Council and it is expected that Cabinet will propose an emergency budget in Autumn 2017.

Delivery of the Ofsted Improvement Plan will continue to be overseen by the Improvement Board and will also be monitored through ongoing Ofsted inspections and peer review.