

Lancashire County Council

Annual Governance Statement 2013/2014

1. The council's responsibilities

- 1.1. Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3. The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The Council will review this code during 2014/15.

2. The purpose of the governance framework

- 2.1. The governance framework comprises the systems and processes, culture and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3. The governance framework has been in place at Lancashire County Council for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

3. The council's governance framework

- 3.1. The following paragraphs highlight some of the key elements of the council's governance framework, and areas where work is being undertaken to improve this.

Leadership and management

- 3.2. The council has, as required by statute, a head of paid service (the Chief Executive), a monitoring officer (the County Secretary and Solicitor), and a 'section 151 officer' (the County Treasurer). Each role operates in accordance with the relevant statutory and professional guidance.
- 3.3. On 5 August 2013 the former Chief Executive was suspended in order to facilitate a disciplinary investigation in relation to conduct issues including the process for letting a contract. Arrangements were immediately put in place to ensure that the council was effectively managed in his absence. The former Chief Executive's contract of employment was subsequently terminated by mutual consent and arrangements were then put in place to appoint a new Chief Executive, the appointment taking effect from 20 February 2014.
- 3.4. The Council has, over the past twelve months, experienced exceptional challenges which have absorbed and diverted a considerable amount of senior leadership time, circumstances which have impacted upon a number of the issues relevant to the adequacy and effectiveness of the Council's control environment highlighted by the Chief Internal Auditor's Annual Report. Along with the issue referred to at paragraph 3.3 these challenges include:

Organisational/Service challenges and Budgetary Pressures

- A change of political leadership in May 2013, resulting in a minority Administration and changes of operational policy and direction.
- Significantly increased demand for both adults' and children's services continues to impose strains on resources and service delivery. New legislation around adult social care and special educational needs will exacerbate these problems.
- The need for the Council to achieve reductions in funding of £300 million by 2017/18, requiring a wholesale transformation of the Council's operating model, which can be best summed up as creating a 'new' Lancashire County Council. The development and implementation of this council wide new structure has been led by Management Team and has involved, and will continue to involve, extensive consultation with staff and trade unions.
- A key element of the 'new' council structure is a voluntary redundancy offer to secure necessary savings on staff costs, with the intention of losing up to 2,500 staff on a voluntary basis. Whilst

applications from staff in key service areas such as safeguarding are generally not being approved, the unprecedented number of voluntary redundancies across the council at all officer grades has resulted in an overall reduction in capacity which does not yet reflect the "new", council structure.

Issues relating to the former Strategic Partnership

- Both Cabinet and the Audit and Governance Committee have received detailed reports concerning the failure of One Connect Limited ("OCL") to deliver services to a satisfactory standard and to achieve procurement savings. This has resulted in the successful renegotiation of the council's strategic partnership and contract with BT plc to form a new company wholly owned by BT: BT Lancashire Services Ltd, and the return to the Council of the majority of services formerly provided by OCL.
- An ongoing police enquiry into a number of issues referred by the Council including the process for letting a contract for the council's fleet services and payments made to the former Chief Executive Officer of OCL.
- The development of a new overarching procurement strategy to replace the procurement arrangements previously undertaken by OCL.

Successes

- The introduction of a new core IT system for both adult and children's social care services.
- The renegotiation of the Council's major waste treatment PFI contract, providing for the future delivery of the service by a company owned by the County Council and Blackpool Council and achieving significant cost savings.
- The successful delivery of major economic development initiatives for the County including the Preston, South Ribble and Lancashire City Deal; the Lancashire Growth Deal; and the progressing of the Lancashire Enterprise Zones.

3.5 These exceptional challenges and demands, particularly those involving the County Council's former arrangements with OCL, have had a major impact on the work of Executive Directors and Senior Managers and have diverted significant senior management time away from core tasks.

3.6 The issues that have emerged over recent months, resulting in the fundamental re-negotiation of the Council's strategic partnership with BT, suggest that the Chief Internal Auditor's opinion for 2012/13, that the Council's system of internal controls was substantial, must now be regarded as debatable in view of the adequacy of controls for which OCL were responsible, as demonstrated in the current Annual Report.

- 3.7 Meanwhile a number of key aspects of the report for 2013/14 which relate to high risk areas of operation can be attributed to failures in the delivery of services by OCL. These have now been addressed by the renegotiation of the Strategic Partnership arrangement with BT and the consequent return of many key services to the Council. The actions taken will result in improved performance and an improved control environment whilst at the same time delivering savings. As the Chief Internal Auditor's Annual Report notes, these issues alone, which correctly identify weaknesses in the Council's control environment that inevitably lead to the conclusion that only limited assurance can be provided in the 2013/14 report.
- 3.8 Other issues identified in the Annual Report for 2013/14 have already been addressed, Executive Directors having reported remedial actions to the Audit and Governance Committee. However, it is important to note that these remedial actions do not form part of the current assurance judgement as whilst action plans have been agreed with Internal Audit, the implementation of them has yet to be audited to enable the Chief Internal Auditor to satisfy herself that her concerns have been addressed. It is intended that this work will now form part of the Chief Internal Auditor's Audit Plan for 2014/15 and that there will be regular reports to Management Team to ensure that the Council's control environment is sound and applied consistently to ensure the successful delivery of corporate objectives.

Decision-making and conduct

- 3.9. The council operates a leader and cabinet model of executive government with a Cabinet of eight members including the Leader and Deputy Leader of the Council. The responsibilities of the individual Cabinet Members are outlined in the council's constitution. However, Full Council has agreed that a fundamental review be undertaken of the Council's current political governance arrangements to consider whether there is a justifiable case for the adoption of a committee system or a form of "hybrid" model, which has started to be seen in some local authorities, or the retention of the Cabinet model. For that purpose Full Council agreed to establish a cross party member/officer working group which will report back to Full Council in December, identifying possible options tested against a number of design principles and in particular taking into account the impact of the implementation of the Council's new operating structure.
- 3.10 The scheme of delegation to officers is intended to enable decisions to be taken at the most appropriate and effective level. The Scheme of Delegation, along with the council's Financial Regulations, are to be reviewed to ensure that they remain effective. However, Full Council has approved in principle changes to the current Scheme such that chief officers would have delegated authority to take all decisions within their area of responsibility, other than matters reserved to Cabinet/Cabinet Members/committees. This significant change in

approach will be one of the issues looked at in the context of the possible introduction of a new governance model and the Council's new operating structure.

- 3.11 The Council operates a decision making protocol, which is regularly reviewed to ensure the legal and financial probity of decisions of the Council, the executive and committees. New software has been introduced to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.
- 3.12 The code of conduct for members and the terms of reference of some of the council's committees were revised during 2012/13 to reflect changes to the governance arrangements arising from the Localism Act 2011. The former Standards Committee was disestablished and complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee. Councillors and staff are reminded of the requirements on a regular basis. The council also has a protocol for councillor/officer relations.

Arrangements for scrutiny

- 3.13 The council has four scrutiny committees. The Scrutiny Committee, whose coverage includes the council's crime and disorder partnership and flood risk management. The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial changes in health service delivery and scrutinising the work of the NHS more generally. The Education Scrutiny Committee scrutinises any issues around education.

Since May 2013 the council has also operated an Executive Scrutiny Committee which considers in advance any key decisions to be taken by Cabinet and Cabinet Members, and all other reports (non-key decisions) to be considered by Cabinet. As part of the arrangements for this latter Committee a Budget Scrutiny Working Group has also been established to have oversight of the budget setting process.

Financial arrangements

- 3.14 The council's financial management arrangements conform with the governance requirements of CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government' (2010).

The County Council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the County Council to significantly reduce the level of its annual revenue expenditure. The Council's financial planning and management

arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

Communicating and reviewing the Council's vision for communities and service users

- 3.15 The Council's new Administration have developed a Strategic Direction document with the intention that this is an interim statement of Policy, the intention being to develop a Corporate Strategy to sit alongside its budget for the period 2014-2017.
- 3.16 To measure the effectiveness and delivery of the council's ambitions, the Council's Cabinet Committee on Performance Improvement regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, the Chief Executive and Executive Directors. The council's Management Team is currently working to embed more effective performance measures across a wide range of its services.
- 3.17 The council engages with the communities of Lancashire in a number of ways:
- High profile communication campaigns to encourage communities to take up our services or help change behaviours;
 - Use of traditional and new media channels to keep residents informed of our activities;
 - Encouraging elected members to use social media;
 - Webcasting of council and committee meetings;
 - Member representation on neighbourhood management boards across Lancashire;
 - Using our residents' panel Living in Lancashire to inform priorities and measure service experience;
 - Talking regularly with service users and communities to understand their service needs; and
 - Consulting on changes we are planning to make.

Whistle-blowing and counter fraud arrangements

- 3.18 The council has a whistle-blowing procedure in place, which has been publicised to staff. Reports on its use and outcomes are presented to the Audit and Governance Committee. The Internal Audit Service undertakes data analysis in areas likely to be susceptible to fraud, supports the biennial National Fraud Initiative data matching exercise, and provides support to managers in investigating allegations of fraud, theft or impropriety.

Audit arrangements

- 3.19 The council has an Audit and Governance Committee which operates in accordance with professional guidance and receives appropriate training. It provides independent oversight of the adequacy of the council's governance, risk management and internal control frameworks, and oversees the financial reporting process.
- 3.20 The council has a well-regarded Internal Audit Service that operates in accordance with professional standards and is a key element of the corporate governance framework.

Risk management

- 3.21 The council seeks to manage its risks well, and Management Teams across the council identify, assess and manage risks effectively. There is good general awareness of risk and the need to demonstrate risk management.

Internal control

- 3.22 During 2013/14, the Chief Internal Auditor provided reports to the Management Team and their senior Management Teams on progress on strengthening the County Council's internal control framework. The Chief Internal Auditor has also regularly reported key areas of audit work to the Audit and Governance Committee which has taken an active role in reviewing the Council's internal control effectiveness.
- 3.23 In her Annual Report for 2012/13 the Chief Internal Auditor provided a substantial assurance overall that there was a generally sound system of internal control. In reaching this conclusion she highlighted a number of weaknesses, and the Management Team committed itself to address those areas and ensure the Council was well governed. In her Annual Report of 2013/14 the Chief Internal Auditor has provided limited assurance overall on the Council's control framework. In reaching this conclusion she has pointed to a gradual deterioration over recent years of the level of assurance she has been able to provide. She has pointed to the previous even spread between substantial/full assurance and limited/nil assurance and that the balance has now tipped to only limited/nil assurance now being provided over the majority of control systems for 2013/14. This change of balance is primarily accounted for by reduced assurance in lower risk areas. In summary:
- The results of audit assignments for areas of high and moderate risk are almost evenly spread between full/ substantial assurance and limited/ nil assurance; and
 - The number of areas of low risk given limited/ no assurance has increased significantly since 2012/13.

The Chief Internal Auditor has recognised that after a number of years in which management and staff resources have been reduced, services restructured, and operating processes redesigned, it is unsurprising that the council's control framework now requires more focussed management attention.

- 3.24 The Chief Internal Auditor has emphasised the exceptional context and circumstances for 2013/14 in her Annual Report. Members of the senior management team, and the council's statutory officers in particular, together with the Chief Internal Auditor, were obliged during 2013/14 to focus their attention on the matters exposed as two of the council's procurement processes were reviewed; the remuneration of the Chief Executive Officer of its joint venture company was discovered; the council's former Chief Executive and all of the senior managers seconded by the council to its joint venture company left the organisation; and the relationship with its strategic partner was renegotiated. The Chief Internal Auditor has concluded that these matters alone indicate fundamental weaknesses in the council's corporate governance arrangements that preclude any more favourable evaluation of the council's risk management, control and governance processes. The Chief Internal Auditor notes that although these events took place in 2013/14, the issues they exposed are rooted in decisions made and actions taken from 2010 onwards.
- 3.25 Each of the issues raised by the Chief Internal Auditor during the year has been discussed with the relevant service managers as well as with members of the council's Management Team. Action plans have been agreed where required and will be followed up by the Audit Service.
- 3.26 The Audit Service undertook work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Whilst some progress has been made to implement the action plans as agreed, the Council's major restructuring; the work associated with making significant cost savings, and the loss of management capacity, has meant that not all remedial actions have completed within the timescales intended. The Audit and Governance Committee has noted a number of these delays and received direct feedback from the relevant Executive Directors.

Key Issues

Set out below are key issues that have arisen from internal audit work. The Chief Internal Auditor has acknowledged that the council's Management Team is taking these issues very seriously.

- 3.27 The Audit and Governance Committee is aware of issues around information governance and that these have been fundamentally affected by the council's relationship with OCL. Significant progress has however been made during 2013/14 to strengthen the council's information governance arrangements and control framework, with the

information governance function now being managed within Democratic Services. The Council has designated a Senior Information Risk Owner (the County Secretary & Solicitor) and a Head of Information Governance has recently been appointed. Action is being taken corporately to raise awareness amongst the council's staff of their responsibilities in relation to information governance (IG) and work is ongoing to ensure that the Council's Information Assets are properly protected and managed. Over the next 12 months a major review of the Council's IG policy framework will be undertaken to ensure it remains fit for purpose particularly in the light developing structural changes.

- 3.28 The Council continues to demonstrate ambition in developing its services, notwithstanding the fact that major reductions in government funding require the council to make significant cost savings. It is recognised that there is a strong drive for improvement and, whilst some developments are subject to delay, other key developments have taken place during the year that will improve the council's controls, including the ongoing replacement of the Integrated Social Services Information System with a system provided by Liquidlogic.
- 3.29 The Chief Internal Auditor has highlighted that the Council's control framework is seen to be reliant upon considerable management effort to remedy gaps as they are identified. Follow-up work on a number of areas indicates that action is not generally being taken as management intended, and that there is a need to improve a number of areas of control as highlighted below:
- A number of in built control and operational weaknesses have been highlighted with the Council's Oracle human resources/ payroll system. These have resulted in a number of issues including inaccurate recording of a number of over payments to staff. There are limitations to the reports available to managers from the Oracle human resources/payroll system which impede managers' access to useful, accurate and timely management information. Managers across the council generally lack proficiency and understanding in using the system. In view of these issues Management Team have established a Project Group to address these issues so that the system provides accurate management information and is operationally effective.
 - Compliance with operational policy in a number of areas is not currently being achieved in practice. In particular, targets for the review of children's social care case files and the Independent Reviewing Officers' caseloads in CYP, and targets for the professional supervision of staff in ASHW are not currently being met. Work is however already under way to develop a new supervision policy framework for both ASHW and CYP.

Compliance with legislation, regulations, policies and procedures

3.30 In an organisation of the size and complexity of Lancashire County Council, it will be never be possible to provide absolute assurance that compliance with all applicable laws and regulations is achieved. However, processes are in place within individual service areas that ensure that compliance with applicable laws, regulations, policies and procedures is achieved.

Training and development

3.31 A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. Officer training is overseen through a corporate performance and development review process.

4 Review of Effectiveness and a Programme of improvement

4.1 The council's Management Team has given serious and careful consideration to the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The Management Team continues to give a very strong commitment to ensure that basic controls are maintained and, particularly in those cases highlighted by the Annual Report of the Chief Internal Auditor, significantly improved. All outstanding actions will now form part of the Chief Internal Auditor's Audit Plan for the current year with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance will achieve at least a substantial assurance assessment in the Chief Internal Auditor's report for the year ending 31 March 2015.

4.2 The council's Leadership and Management Team acknowledge that the exceptional events of 2013/14 as highlighted above, particularly those set out in paragraph 3.4 have been a diversion that has had an impact on the Council's control environment. However, they are committed to ensuring that robust governance remains at the heart of the Council's business and will ensure that areas of concern highlighted by the Annual Report will be rectified.

Signed:

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Leader of Lancashire County Council

Chief Executive of Lancashire County Council

Date

Date