

Annual Governance Statement 2017/18

Executive Summary

The Leader of the County Council (County Councillor Geoff Driver CBE) and Interim Chief Executive (Angie Ridgwell) both recognise the importance of having good management, effective processes and other appropriate controls in place to run the County Council in delivering services to the communities of Lancashire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how the corporate governance arrangements have been working. To help do this both the Council's Corporate Management Team (CMT) and the Audit, Risk & Governance Committee undertake a review of our governance framework and the development of the AGS.

On the XXXXXX 2018 the Audit, Risk and Governance Committee considered and challenged the content and the significant governance issues identified in the statement – ensuring that the statement properly reflects how the Council is run – identifying any improvements and actions.

The final statement was formally approved by the Audit, Risk and Governance Committee on XXXXXX where it was recommended for signing by the Leader of the Council and Interim Chief Executive.

Governance Issues

Overall we can confirm that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst we are satisfied that these work generally well our review has identified the following issues:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Delivering the new Operational Plan: <ul style="list-style-type: none"> Establish a new leadership and management team Embed a focus on service delivery Develop a sustainable financial strategy Delivering economic growth and prosperity 	Interim CEX/S151 Officer	
Delivery of the Ofsted improvement plan	Executive Director -Children Services	
Special Educational Needs & Disability	Executive Director -Children Services	
Improving health and wellbeing	Executive Director – Adult Services	
Improving the management of major projects	Executive Director -Growth Environment	

	Transport & Community Services	
Core systems and improving data quality	Executive Director -Growth Environment Transport & Community Services	

Progress made against the issues identified in the 2016/17 AGS is contained on page 9.

We propose over the coming year to address the matters identified and will monitor implementation and operation as part of the performance management role of the Corporate Management Team and Executive. The Audit, Risk and Governance Committee will also help us with independent assurance during the year.

----- County Councillor Geoff Driver CBE
Leader of the Council

----- Angie Ridgwell
Interim Chief Executive/S151 Officer

Signed on behalf of Lancashire County Council

Introduction

Local authorities are statutorily required to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement (AGS) in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (the Framework) fulfils this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

What is 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.

Key elements of the County Council's Governance Framework

Key elements of Lancashire County Council's governance framework are set out below:

Leader, Cabinet & Council	Decision Making	Risk & Performance Management
<ul style="list-style-type: none"> • The Leader provides leadership • Cabinet develops and sets policy • Full Council agrees the annual budget, sets Council Tax and the policy framework 	<ul style="list-style-type: none"> • Meetings are held in public and many are webcast • Decisions are recorded on the Council's website 	<ul style="list-style-type: none"> • Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team, Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to CMT and members • Directors complete assurance statements
Council's Leadership Team	Scrutiny & review	External & Internal Audit and review
<ul style="list-style-type: none"> • Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Management Team • Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs and ensuring value for money • Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct 	<ul style="list-style-type: none"> • Scrutiny Committees review council policy and decisions • Work to deliver local public sector accountability 	<ul style="list-style-type: none"> • External audit provides an opinion on the Council's annual statement of accounts and whether the Council has secured economy, efficiency and effectiveness in the use of its resources • Internal audit provides regular assurance on the governance, risk management and internal control framework • External inspections provide an additional accountability mechanism • Peer challenge/reviews highlight good practice and areas for improvement

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

- a Local Code of Corporate Governance
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016
- a number of specific strategies and processes for strengthening corporate governance.

An updated Local Code of Corporate Governance can be found here [insert link]. This shows how the County Council has complied with the seven principles set out in the CIPFA/SoLACE Framework. The Code is reviewed annually and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. 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.

Managing Risk & Performance

Performance management is a key component of the Council's approach to achieving its outcomes. Part of this process involves identifying and, where appropriate mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with effective processes to ensure sound financial management. Managing risks is the responsibility of services. All service risks are scored using the same approach and the greatest risks are elevated onto the Corporate Register.

Service risk & opportunity registers are updated regularly and the Corporate Risk and Opportunity register is reported to 'Corporate Management Team (CMT)', 'Cabinet Committee for Performance Improvement' and 'Audit, Risk & Governance Committee' on a quarterly basis. A recent Internal Audit review gave full assurance over the process by which the corporate register is prepared. CMT have recently reviewed and updated both the content of the register and the governance arrangements. The Corporate Risk & Opportunity register and further information about our approach to risk management can be found here [insert link]

Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making.

The budget setting process is well established and services prioritise budgets and spending in order to achieve intended outcomes. In recent years the budget setting process has inevitably focused on achieving savings whilst still focusing on the priorities of the political administration.

The medium term financial strategy is updated and reported to Cabinet together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the county council operates. The quarterly Cabinet 'Money Matters' reports also include revenue and capital monitoring information along with updates to the multi-year capital programme.

Quarterly performance monitoring reports are presented to both CMT and 'Cabinet Committee for Performance Improvement' (CCPI). The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). An

Internal Audit review of the Performance Management Framework in March 2017 provided substantial assurance. Since then further work has been undertaken to develop a corporate performance dashboard that provides a snapshot of the 'health' of the organisation.

Managing our resources (Value for money)

The external auditor of the council in their Value for Money judgement for 2016/17 confirmed that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Based upon ongoing discussions with the external auditor a similar judgement for 2017/18 is anticipated (***this sentence to be updated with final opinion***)

Overall budget consultation was undertaken with a variety of stakeholders and partners including discussions with the Trades Unions prior to finalising the 2018/19 budget. In addition, a number of savings proposals included within the agreed 2018/19 budget are subject to specific consultation exercises, with decisions to be made at future cabinet meetings as to their final implementation. Any changes to these proposals resulting from the consultation which reduces the level of savings achievable will be covered by reserves.

The Council is constantly monitoring its long term financial position using a funding model which presently covers a four year period. The model predicts a budget shortfall for future years taking into account forecast cost pressures (both inflationary and demand led), and planned savings and forecast resource levels. The model is necessarily underpinned by a range of prudent assumptions.

The projected budget shortfall is regularly reported to both CMT and Cabinet in the 'Money Matters' report and forms a starting point for setting future budgets. The current budget strategy remains to use a blended mix of revenue budget savings combined with prudent use of reserves and capital receipt flexibilities. Proposals to develop a sustainable financial strategy are set out in our new Operational Plan (details of which are set out later in this statement).

The model will be reviewed once central government has given more of an indication of their intentions for the medium to long term future of local government funding, in particular the impact of business rate retention and a new fair funding formula.

Our financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. We also ensure that we provide timely support, information and responses to our external auditors – properly considering audit findings and recommendations through CMT and the Audit, Risk and Governance Committee.

How do we know our arrangements are working?

There are a number of ways we do this:

The role of management

The Corporate Management Team oversee the review of the council's governance arrangements and the development of the Annual Governance Statement. Assurance is provided 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.

Our directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture and develop and implement the policies, procedures, processes and controls – ensuring compliance. Directors have completed annual assurance statements for 2017/18 and quarterly service risk registers that set out appropriate mitigating actions to ensure compliance.

The Monitoring officer regularly reviews the Council's Constitution and ethical governance arrangements and there are regular briefings on key corporate governance issues to directors and heads of service.

During the year, a review of our governance framework was undertaken by the Internal Audit service. The outcome confirmed that we comply with current best practice – with strong governance arrangements in place that are up to date and relevant to the environment we work in. The review suggested a number of minor improvements that are being implemented i.e. the ownership and version control of documents comprising the constitution.

The Role of the Audit, Risk & Governance Committee

The Council's Audit, Risk and Governance Committee plays a vital role in overseeing and promoting good governance, ensuring accountability and reviewing the way things are done.

The Committee provides an assurance role to the Council by examining such areas as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment

Earlier in the year, the committee reviewed its term of reference and agreed some changes to further improve its effectiveness.

Further information about the role of the Committee can be found here [insert link]

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. The Annual Report and opinion has been considered in the development of the Annual Governance Statement and any significant issues incorporated as appropriate.

Audit work has progressed throughout the year and almost 80% of the work completed by the year end has yielded substantial assurance over the design and operation of the services, systems and processes audited. However, across the last two years we have identified through our assurance framework, service areas where improvements needed to be made. In these instances the Council has introduced improvement plans.

Whilst the overall direction of travel in these areas is positive, the evidence needed to provide substantial assurance is still emerging.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that she is only able to provide limited assurance regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2017/18. Key areas of audit work to be undertaken in 2018/19 can be found here [*Insert link*]

External Assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance. For example, Government recently conducted a 'spot check' audit of our Troubled Families programme. The inspectors found high quality work and were confident that we were working within the terms of the programme's Financial Framework.

Scrutiny Committees

The work of the five Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

Elections

All our County Council elections were held in May 2017. No petitions (challenges) were received and the election was delivered within budget.

Information Governance

The council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group is attended by the Senior Information Risk Officer and Data Protection Officer. Advanced plans are in place for the implementation of the new General Data Protection Regulations in May 2018.

Looking back on 2017/18

A number of improvement actions were identified as part of the 2016/17 Annual Governance Statement. All of these risk areas have been the subject of detailed reports to Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

The Council's financial position

The Statement of Accounts for 2017/18 includes a narrative statement highlighting the most significant financial issues for the year.

The narrative report shows the outturn position on the Council's revenue and capital budgets, noting that the forecast revenue under/overspend of £xxxxx million was largely due to ***(Need to update figures once outturn agreed)***

However, the MTFS indicates a financial deficit of £144.084 million in 2021/22 after allowing for savings of £135 million, including £81 million of new savings proposals included in reports to Cabinet during 2017/18.

The report also confirms capital expenditure for the year of £XXX million, cXX% of budgeted spend.

Delivery of the savings programme has been identified as a key risk area and the savings plans are subject to detailed and regular scrutiny by internal programme management and finance services.

The financial challenge facing the Council continues to be the key governance issue for 2018/19 and additional information is contained further in this statement.

Delivery of the Ofsted improvement plan

Since the local authority was judged inadequate following an Ofsted review in September 2015, there have been six monitoring visits. The last monitoring visit took place in February 2018 and focused on the MASH (Multi-Agency Safeguarding Hub) and the interface with early help services.

Ofsted agreed with our self-assessment of the service and that significant progress has been made in the quality of service practice. They also agreed with our partnership priorities around responding to domestic abuse. Prior to this, Ofsted undertook a monitoring visit at the end of October 2017. This focused on the quality of help and support given to children in need. It was noted that the authority continued to make progress in the improvement of services for children and the quality of auditing activity had improved significantly.

Lancashire's annual conversation with Ofsted took place in January 2018 to review progress and performance. In line with the introduction of a new inspection framework there was a particular focus on the quality and impact of social work practice, how this was monitored and evaluated and the plans for the next twelve months to improve practice. An update was provided on what we are doing to improve practice and the findings of recent external reviews.

Special Educational Needs and Disability (SEND) Inspection

In November 2017, Ofsted and the Quality Care Commission (CQC) conducted a joint inspection of the local area of Lancashire, to judge how effectively we have implemented the special educational needs and disability (SEND) reforms, set out in the Children and Families Act 2014.

The inspection identified weaknesses in the local area's practice and the council and clinical commissioning groups (CCGs) have been asked to write a joint written statement of action (WSA).

Partners are working together to deliver a SEND action plan to address the issues identified by the inspectors. To help achieve these improvements, we have taken a number of early actions that include:

- Improving governance arrangements by setting up a partnership board
- Changes to the local service offer
- Recruitment of Designated Clinical Officers
- Consultation with families to elicit their views
- Discussions to reduce school exclusions

Further information about what we plan to do during 2018/19 is in the next section of this statement.

Health & Social Care Integration

Further discussions have taken place with health colleagues on an integration agenda focused on joint commissioning. The proposed outcome being an improved service offer. Since the May 2017 elections regular meetings have taken place between the Cabinet and chief executives from across the Lancashire Health economy and an agreed priority is to improve the position for individuals whose discharge from hospital is delayed.

The Local Government Association have worked with us to provide challenge and scrutiny of our savings and service redesign proposals around adult social care.

A Combined Authority for Lancashire

During 2017 the Shadow Combined Authority accepted that it was unlikely that all of the constituent members would be able to secure approval to move to a fully constituted Combined Authority. It was however agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and work collaboratively to improve economic development and public service outcomes.

Systems development & data quality

In summary, good progress has been made on improving the quality of service data and update reports have been presented to Audit, Risk and Governance Committee throughout the year. Issues remain in some areas and action plans are in place to address them.

Governance focus for 2018/19 and actions to be taken

The County Council's elections in May 2017 saw a change of political administration. This change has resulted in revised Council policies across a number of service delivery areas and the way in which political decisions are made. For example, a number of previously closed libraries have been reopened and the council is consulting on its policy on the availability of halal meat in schools. In terms of decision making, all executive decisions (except urgent decisions) are now made collectively by Cabinet.

Alongside of this there has been a senior management restructure. A new Interim Chief Executive/Section 151 officer has been appointed for 12 months until January 2019. The Deputy s151 Officer is the Director of Finance who is a member of CMT. A new monitoring officer has also been appointed and several directors have assumed new responsibilities. All statutory posts have been appointed to. One of the three Executive Director posts is currently filled on an interim basis.

A new Operational Plan has been developed. The Plan summarises the priorities, delivery, focus, approach and aspirations for 2018/19. Building on past achievements the council will pursue four operational priorities over the coming year:

1. Establish a new leadership and management team

Current vacancies in the leadership team are being filled. It is expected that all posts will be filled by April 2018, acknowledging that in the case of Children and Young People, this will be covered on an interim basis until the recruitment process is completed. A new Chief Executive will be recruited by XXXX 2018.

To provide visible leadership and engage the organisation, the management team will work closely together and undertake a number of individual and collective actions.

2. Embed a focus on service delivery

The focus in 2018 is to view our services through the eyes of users and developing them to be the best they can. A 'service challenge' will be applied to each service area. This will seek to put users at the heart of the service and empower delivery staff to design the optimum solution. In all cases the objective of the service challenge will be to secure a better service at a lower cost.

3. Develop a sustainable financial strategy

Like all councils, Lancashire County Council is facing significant financial pressures, and while good progress has been made in addressing the forecast financial shortfall over the Medium Term Financial Strategy (MTFS) period, further work is required to ensure the council can achieve a financially sustainable position.

In order to achieve a balanced budget from 2021/22 we need to address a funding gap of around £144 million. It is proposed therefore to address the budget deficit through a number of work streams:

- Service challenges
- Commercialisation
- Taxation & grants
- Productivity
- Commissioning and third sector

Each work stream will have a nominated senior responsible officer who will be responsible for developing detailed plans and putting together a team to support them in their task.

As part of this priority we will consider opportunities for involvement in future business rate retention pilots and influencing the new formula funding methodology for local government.

4. Delivering economic growth & prosperity

A thriving economy that improves the productivity and earning power of all residents is key if we are to deliver inclusive growth. To do this we will work collaboratively with partners on a number of fronts that include:

- The Lancashire Enterprise Partnership (LEP) on its substantial growth programme. However, to realise its full potential its 15 authorities must demonstrate strategic leadership and help to deliver transformational change
- Working with a range of public sector partners to improve public service outcomes, especially around health and social care
- Engaging with government to take advantage of new strategic place making initiatives
- A more prominent leadership role in the Northern Powerhouse and influencing the priorities of bodies such as Transport for the North
- Refreshing the Strategic Economic Plan
- Agreeing a new Local Industrial Strategy with Government

Continue to improve children's services following Ofsted inspection

The focus for improvement activity will continue to be driven through the refreshed Improvement Plan and the cycle of 12 week Improvement Plans. This will continue to be overseen by the Improvement Board. The following are the overarching outcomes for the future:

- Prevention
- Purposeful practice
- Permanence

The delivery of priorities and actions detailed in the refreshed Plan will embed improvements for vulnerable children and this will be underpinned by more detailed implementation plans for each of the following areas:

- Prevention and Demand Management
- Purposeful Practice
- Permanence and Corporate Parenting
- Workforce Strategy
- Children with Special educational Needs and Disabilities
- Youth Justice

A new governance structure has been established to streamline the existing arrangements.

It is anticipated that Ofsted will undertake a full four week final inspection in the spring/early summer of 2018.

Improving Health and Wellbeing

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 improved Better Care Fund (iBCF) 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 iBCF paid to a local authority may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

The Lancashire Health and Wellbeing Board has agreed that iBCF monies will be used in line with the following overarching principles, which are consistent with the Grant conditions:

- Improving all aspects of Assessment
- Making Home 1st work
- Creating appropriate and effective 7 day services and aligned Integrated Discharge Services.

Governance arrangements for the Lancashire Health and Wellbeing Boards are also being reviewed and Membership is being strengthened by making links to the housing sector, economic development and fire and rescue service. The board also convened a check and challenge session to review expenditure and delivery of the high impact changes known to be effective in reducing delays in discharges as part of its assurance process.

The council is also engaged in the development of the integrated care system across Lancashire and South Cumbria.

Respond to SEND inspection

As stated earlier in the statement, work has already begun on addressing the issues found by the inspectors. The main issues we will be working on are as follows:

- Ensuring children and families are at the heart of all we do
- Robust and comprehensive assessments of children who have SEND are carried out in a timely way
- Developing a strategic oversight of SEND across the local area
- The appointment of designated clinical officers to fulfil the designated medical officer function
- Developing what support and services are needed and put in place with children, young people and their families
- Refreshing and publicising the Lancashire local service offer
- The further development of pathways for Autistic Spectrum Disorder including diagnosis across the local area
- Collaboration with school leaders to reduce the exclusion of pupils with SEND

The development and delivery of an improvement plan will be closely monitored by the DfE and Lancashire Improvement and Accountability Board. The 'Written Statement of Action' was submitted in April 2018. The effective implementation of the improvement plan will be critical to achieving an improved outcome when Ofsted undertakes a further, shorter inspection of these services in due course.

Improving the management of major projects

The county council is currently involved in several major projects such as the development of the Cuerden site. Significant risks can be associated with such projects and the council will be implementing steps to ensure

robust risk management practices are in place.

Core Systems & Improving Data Quality

During 2017/18 work to improve the quality of data in core systems continued at a pace. In Children's Services the improved confidence in the quality of the data in the 'Lancashire Children's System' led to a refocusing of the 'Accuracy Working Group'. It was renamed 'Performance and Data Quality Group' and the emphasis switched from dealing with data quality problems to using data to manage performance. Although data quality issues continue to be identified and resolved by this group they are now relatively minor.

In Adults Social Care, there has been a significant improvement in the quality of data within the systems as a result of data cleansing exercises undertaken throughout the year. An 'Accuracy Working Group' has been established which is looking at further improving data quality, developing exception reports and establishing processes to improve the quality of data by dealing with issues before they've caused a problem.

Concerns remain about the quality of data in other core systems, primarily the 'Highways Asset Management System' and the 'Project and Portfolio Management System'. Governance arrangements have been put in place to oversee progress and set targets. There is ongoing engagement with services to identify benefits and to support implementation. Post system implementation groups are in place to identify areas for further development and then be linked to road maps and transformation change.

Monitoring implementation

The management of these issues facing the Council in 2018/19 will be monitored by CMT and are identified risks in the Council's Corporate Risk and Opportunity Register.

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