

Lancashire County Council

Audit and Governance Committee

Thursday, 30th June, 2016 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No. Item

1. **Apologies**
2. **Constitution: Membership; Chair and Deputy Chair; Terms of Reference** (Pages 1 - 4)
3. **Disclosure of Pecuniary and Non-Pecuniary Interests**
Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.
4. **Minutes of the Meeting held on 9 May 2016** (Pages 5 - 10)
To be confirmed, and signed by the chair.
5. **Update on Treasury Management Activity** (Pages 11 - 30)
6. **The Council's Code of Corporate Governance** (Pages 31 - 84)
7. **The Council's Annual Governance Statement 2015/16** (Pages 85 - 116)
8. **Risk and Opportunity Register** (Pages 117 - 132)
9. **Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing** (Pages 133 - 140)
10. **Waste Facilities Valuation - Business Decision Analysis** (Pages 141 - 146)

11. Urgent Business

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

12. Date of Next Meeting

The next meeting of the Committee will be held on Monday 26 September 2016 at 2.00p.m. at County Hall, Preston.

County Hall
Preston

I Young
Director of Governance,
Finance and Public Services

Audit and Governance Committee

Meeting to be held on 30 June 2016

Electoral Division affected: All

Audit and Governance Committee

Constitution: Membership; Chair and Deputy Chair; Terms of Reference
(Appendix 'A' refers)

Contact for further information:

Cath Rawcliffe, 01772 533380, Legal and Democratic Services

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Executive Summary and Recommendation

The Committee is asked to note:

- i. the new Membership of the Committee following the County Council's Annual Meeting;
- ii. the appointment of Chair and Deputy Chair of the Committee; and
- iii. the Terms of Reference of the Committee.

Background and Advice

The County Council at its annual meeting on 26 May 2016 approved the constitution of the committee on the basis of 4 members of the Labour Group, 4 members of the Conservative Group and 1 Liberal Democrat Group member. The following members were appointed by their respective groups:

County Councillor:

K Brown	G Driver
T Brown	C Pritchard
D Clifford	A Schofield
C Dereli	V Taylor
B Winlow	

Councillors T Brown and D Clifford have been appointed as Chair and Deputy Chair of the Committee.

A copy of the Committee's Terms of Reference is attached at Appendix 'A'.

The Committee is asked to note that the Full Council will be asked to agree to the following additions to the Terms of Reference:

- 'To monitor the effective development and operation of risk and opportunity management in the council
- To approve the internal audit charter'.

Consultations

N/A

Risk Management

N/A

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

Paper	Date	Contact/Service/Tel
Full Council agenda	26 May 2016	Cath Rawcliffe, Democratic Services, 01772 533380

Reason for inclusion in Part II, if appropriate

N/A

Audit and Governance Committee

Purpose

The Audit and Governance Committee provides independent oversight of the adequacy of the council's governance, risk management and internal control framework, and oversees the financial reporting process.

Membership

The members of the Audit Committee shall comprise nine councillors.

Terms of Reference

Governance

1. To monitor the operation of the council's corporate governance, risk management and internal control arrangements.
2. To monitor the effectiveness of the council's strategies to counter fraud and corruption.
3. To monitor compliance with the council's local corporate governance code.
4. To promote and maintain high standards of conduct by councillors and co-opted members, to ensure that the highest ethical standards are maintained across all areas of the council's services.
5. To review and approve the council's annual governance statement.
6. To conduct an annual review of the effectiveness of the system of internal audit.

Audit

7. To approve, but not direct, the annual internal audit plan.
8. To consider periodic reports of internal audit activity and outcomes.
9. To consider the head of internal audit's annual report and opinion.
10. To consider the external auditor's annual plan.
11. To consider periodic reports on external auditor's work.
12. To consider the external auditor's annual audit letter.

Financial statements

13. To consider and approve the audited financial statements of the county council and its group subsidiaries and associates.
14. To consider and approve the audited financial statements of Lancashire County Pension Fund.

Treasury management

15. To review the council's treasury management strategy and policies.
16. To consider periodic reports of treasury management activity.

Meetings

17. The Audit Committee will meet at least four times a year

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 9th May, 2016 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	C Pritchard
D Clifford	A Schofield
C Dereli	V Taylor
G Driver	B Winlow

Officers in attendance

Ian Young - Director of Governance, Finance and Public Services
Neil Kissock – Director of Finance
Paul Bond – Head of Legal & Democratic Services
Ruth Lowry - Head of Internal Audit
Khadeja Saeed – Head of Corporate Finance
Karen Murray - Director, Grant Thornton
Caroline Stead - Grant Thornton
Cath Rawcliffe – Committee Support Officer

1. Apologies

None received.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

County Councillor C Pritchard declared a non pecuniary interest in item 8 as Lead Member for Waste Management.

3. Minutes of the Meeting held on 25 January 2016

The minutes of the meeting held on 25 January 2016 were presented and agreed.

Resolved: That the Minutes of the meeting held on 25 January 2016 be confirmed and signed by the Chair.

4. Internal Audit annual report

Ruth Lowry, Head of Internal Audit, presented an update on the progress made on the audit work undertaken for the county council during 2015/16, and gave an

indication of the planned improvements that the council may wish to reflect in its annual governance statement.

Previously the Committee had noted that the Internal Audit Service would not be able to undertake a sufficient breadth of work to support an overall audit opinion in 2015/16 as the Internal Audit Service would focus its assurance work solely on the council's centrally managed key financial systems.

The report therefore provided an update on the progress made on the audits of the centrally managed key financial systems, and the outcomes where appropriate.

In response to concerns raised by the committee, officers confirmed that the Internal Audit Service would be able to undertake a sufficient breadth of work to support an overall audit opinion in 2016/17.

Resolved: That the Internal Audit annual report to the authority for 2015/16, as set out at Appendix 'A' to the report now presented, be noted.

5. Internal Audit Charter

Ruth Lowry, Head of Internal Audit, presented a report on a revised Internal Audit Charter.

The committee was informed that the Charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the council and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Resolved: That the revised Internal Audit Service Charter as set out at Appendix A to the report presented be approved.

6. Internal/ external audit protocol

Ruth Lowry, Head of Internal Audit, presented a report on a revised Internal/External Audit Protocol.

The protocol set out how Lancashire County Council's internal Audit Service and Grant Thornton as its external auditor work together, and establishes a framework for coordination, cooperation and exchange of information.

Resolved: That the internal/external protocol be noted.

7. Internal Audit Quality and Assurance Improvement Programme

Ruth Lowry, Head of Internal Audit, presented a report on a revised Internal Audit Quality and Assurance Improvement programme.

The committee was advised that the quality assurance and improvement programme would:

- Formalise the arrangements in place to ensure the quality of internal audit work across the county council;
- Enable the Internal Audit Service to evaluate and demonstrate its conformance with the applicable professional standards; and
- Assess the efficiency and effectiveness of the Internal Audit Service's work and identify opportunities for improvement.

Resolved: That the Quality Assurance and Improvement Programme as set out at Appendix A to the report presented, be noted.

8. External Audit - Lancashire County Council Audit Plan 2015/16

Karen Murray, Director for Grant Thornton, presented the External Audit – Lancashire County Council Audit Plan 2015/16 report to the Committee.

The Plan set out the main risk areas which the audits would focus on. These included the council's financial statements and value for money (VFM).

It was reported that the result of the VFM audit work and the key messages arising would be presented to the Audit and Governance Committee at their meeting on 26 September 2016.

In the presentation, Karen Murray highlighted several areas for member's attention that included:

- Materiality
- Significant risks
- Value for Money
- The results of interim audit work
- The fee for the audit of the County Council

Officers responded to concerns raised by the Members in relation to the significant risk identified by the External Auditor on the valuation and planned mothballing of the waste processing services. The Committee requested that work on such be progressed and reported back to the next meeting on 30 June 2016.

Resolved: - That the External Audit Plan for the audit of the County Council for 2015/16, and the fees therein, be agreed.

9. External Audit Lancashire County Pension Fund Audit Plan 2015/16

Karen Murray, director, Grant Thornton presented the External Audit Plan for the audit of the pension fund for 2015/16.

The Audit Plan set out the main risk areas which the audit would focus on including:

1. the two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle includes fraudulent transactions and management override of controls;
2. the risk of incorrect valuations on Level 3 investments, which by their nature require a significant degree of judgement to reach an appropriate valuation at year end; and
3. other key risks areas around member data, investments, contributions and benefits payable.

The committee noted that the fee for the audit of the pension fund had been set at £35,906, the same as that charged in 2014/15.

Resolved: That the fees and External Audit Plan for the audit of the Lancashire County Pension Fund for 2015/16 as now presented be agreed.

10. External audit - audit update

Karen Murray, director, Grant Thornton, presented an update of the audit work undertaken by the Grant Thornton against the 2015/16 audit of accounts, Value for Money (VfM) conclusion and other work.

The report also provided additional information on sector developments to the members of the Audit and Governance Committee as those charged with governance for the Council.

Resolved:- That the update report be noted.

11. Urgent Business

There were no items of urgent business.

12. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Thursday 30 June 2016 at 2:00pm at County Hall, Preston.

13. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information

14. Annual report on counter-fraud, investigations and whistleblowing

Not for Publication – Exempt information as defined in Paragraphs 1 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

The Head of Internal Audit presented a report on a summary of the work performed by the Internal Audit Service during 2015/16 to prevent, detect and investigate fraud and corruption within the County Council.

It was noted that no single issue had been identified that would have a material impact on the county council's overall control environment. However, there were areas that should be reviewed and strengthened.

A copy of the annual report was presented at Appendix 'A'.

Resolved: That the 2015/16 counter fraud, investigations and whistleblowing report as now presented, be noted.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston

Audit and Governance Committee

Meeting to be held on 30 June 2016

Electoral Division affected: None

Update on Treasury Management Activity

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

The report set out at Appendix 'A' is a review of the County Council's Treasury Management activities in 2015/16. Management activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it is best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions during 2015/16
- Borrowing activity
- Investment activity
- Actual results measured against 2015/16 Prudential Indicators and Treasury Management Indicators.

Recommendation

The Committee is asked to note the review of treasury management activities for 2015/16.

Background and Advice

As part of the County Council's governance arrangements for its Treasury Management activities, the Audit and Governance Committee is charged with oversight of the County Council's Treasury Management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the Director of Financial Resources and the content of these reports is used as a basis for this report to the Committee.

This report outlines a review of the borrowing and lending activity during 2015/16 and sets this activity against the economic background including risk management strategies to protect the capital value of the County Council's reserves and balances.

Consultations

Arlingclose provides advice on treasury management.

Implications

This item has the following implications, as indicated:

Risk management

The County Council's Treasury Management Strategy and review set out a policy in respect of borrowing and lending activity. Risks associated with these activities in 2014/15 are referred to in the report.

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

Paper	Date	Contact/Tel
Treasury Management Policy and Strategy 2015/16	Feb 2015	Paul Dobson 01772 534740
CIPFA TM Code of Practice	2011	Paul Dobson 01772 534740

Review of Treasury Management 2015/16

Introduction

The County Council's Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity annually. The Code also recommends that members are informed of Treasury Management activities at least twice a year.

1. Economic Summary 2015/16

The Treasury Management activity is influenced by the economic situation and the anticipated movement in interest rates. The following is a summary of the economic position in 2015/16.

Growth, Inflation, Employment:

The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. This prolonged spell of low inflation was attributed to the continued collapse in the price of oil; the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences:

The slowdown in the Chinese economy posed a significant threat to global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility. In addition as the global economy entered 2016 there was further uncertainty about growth resulting from the potential outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

Monetary Policy:

The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

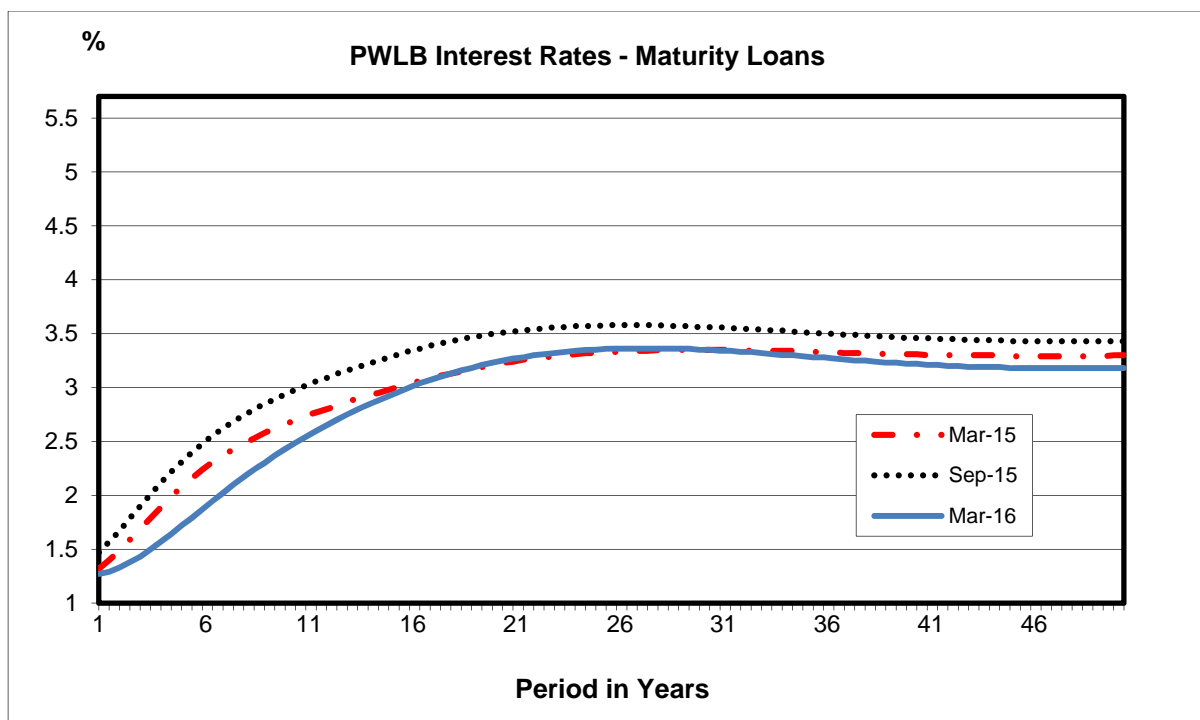
Market reaction:

From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Interest Rate Environment:

Short term interest rates continue at very low levels with the Bank of England maintaining the base rate to 0.5% throughout the year. Short term investment levels available in the market remained below 0.6% through the year as illustrated in the chart below.



Due to the continued economic uncertainty and the prospects for economic growth it is anticipated that the low interest rate environment will continue. When rates do increase it is expected that this will be at a gradual rate. Lancashire County Council's Treasury Management advisors, Arlingclose Treasury Consultants, has changed its forecast of interest rates movement. It now considers that the next move in the Bank base rate will be in Q2 2018. Last year it was anticipated that the next increase would have been in Q2 2017. (Note that the Quarter and Half years referred to are calendar years, as opposed to financial years). Their forecast are shown in the table below.

Period	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt Yield
Q2 2016	0.50	0.50	1.00	2.30
Q3 2016	0.50	0.50	1.05	2.35
Q4 2016	0.50	0.55	1.10	2.40
Q1 2017	0.50	0.60	1.10	2.45
Q2 2017	0.50	0.65	1.15	2.50
Q3 2017	0.50	0.70	1.20	2.55
Q4 2017	0.50	0.75	1.25	2.60
Q1 2018	0.50	0.80	1.30	2.65
Q2 2018	0.75	0.85	1.35	2.68
H1 2019	0.75	1.05	1.40	2.75

2. Local Context and the Treasury Management Strategy 2015/16

The Full Council approved the revised 2015/16 Treasury Management Strategy at its meeting on 11th February 2015. The Council's stated investment priorities were:

- (a) Security of capital and
- (b) Liquidity of its investments.

The County Council policy, which has been in place for a number of years, is a deliberate "low credit risk" investment policy, using bonds issued by governments, government agencies, government guaranteed bodies, supranational bodies and covered or collateralized corporate bonds. The County Council's position is not to invest in banks, other than call accounts; and therefore it is substantially insulated from the effects of an individual or systemic banking "credit event". This control of credit risk was a key driver in the Treasury Management activity in 2015/16, and will continue to be so in future years. As outlined later in the report over 75% of investments are rated AA+ or AAA demonstrating that LCC has maintained a low risk portfolio.

The County Council's Treasury Advisor, Arlingclose, compares the credit risk of its clients. This comparison shows that at 31 March 2016 the County Council has one of the lowest credit risk scores of all of its clients. This comparison is shown graphically at the end of this appendix.

The County Council also aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. 2015/16 saw continued low interest rates with significant economic uncertainty in the world economy as described in the economic summary above, increased the value of low risk secure assets such as those held by the County Council.

The County Council's stated borrowing strategy was to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term Public Works Loan Board (PWLB) loans. Since this strategy was first implemented in 2010/11 the County Council has taken advantage of low interest rates to reduce the cost of financing current and former years' capital programmes. This strategy continued to be implemented in 2015/16 and will continue to be the most cost effective financing method until there is a significant increase in interest rates.

The Director of Finance can report that all Treasury Management activity undertaken during the financial year complied with the *CIPFA Code of Practice* and the relevant legislative provisions.

3. Treasury Management Activities in 2015/16

Borrowing Activity 2015/16

The estimated borrowing requirement in 2015/16, as agreed in the Treasury Management Strategy, was £619.089m. This took into account the financing of the Capital Programme and the refinancing of existing short term borrowing which has been taken to fund previous capital expenditure. The actual borrowing required was

lower than expected (principally due to slippage in capital expenditure). The table below shows the 2015/16 revised borrowing requirement as agreed within the 2016/17 Treasury Management Strategy report, along with the actual position as at 31st March 2016.

	2015/16 Revised £m	2015/16 Actual £m
Capital Programme Expenditure	250.521	186.077
<i>Financed by:</i>		
Capital Receipts	21.297	26.502
Grants and Contributions	143.350	152.725
Revenue Contributions	24.869	6.850
Borrowing	61.005	0.000
<i>Add Maturing Debt to be replaced:</i>		
Long Term PWLB	0.000	0.000
Long Term Fixed Borrowing	0.000	0.000
Short Term Market Borrowing	579.950	522.400
Less Transferred Debt	1.899	1.761
Less Statutory Charge to Revenue	19.967	19.446
Total Borrowing Requirement	619.089	501.193

Analysis of Borrowing Outstanding

The total loan debt administered by the County Council at 31 March 2016 was £973.630m which is a reduction of £59.680m in the year. This debt has been incurred over a number of years to finance the acquisition of the County Council's fixed assets, which are currently valued at £2.751bn.

The following table sets out the movement of the County Council's treasury borrowing during the year and the structure of the debt at 31st March 2016.

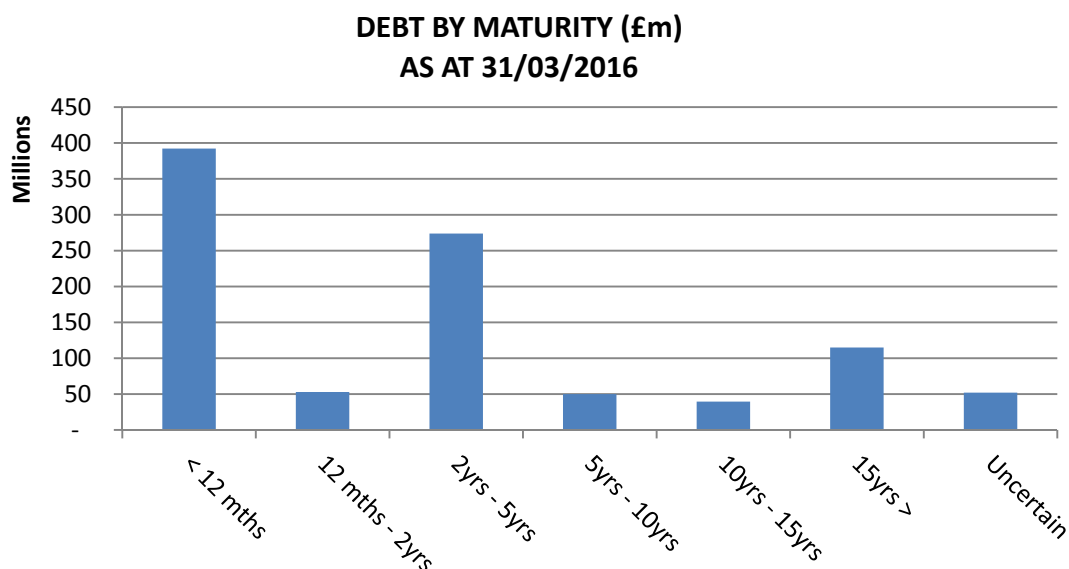
	Debt at 31-Mar-15		Borrowing	Repayments	Debt at 31-Mar-16	
	£m	%	£m	£m	£m	%
Fixed Rate Funding						
Public Works Loan Board	213.10	20.62	-	-	213.10	21.89
*LOBO	50.00	4.84	-	-	50.00	5.14
Market Borrowing	573.00	55.45	622.30	672.90	522.40	53.64
Total Fixed Rate Funding	836.10		622.30	672.90	785.50	
Variable Rate Funding						
Public Works Loan Board	125.75	12.17	-	-	125.75	12.92
Shared Investment Scheme	71.46	6.92	481.95	491.03	62.38	6.41
Total Variable Rate Funding	197.21		481.95	491.03	188.13	
Loan Debt Administered by the County Council	1,033.31	100.00	1,104.25	1,163.93	973.63	100.00

*Lender option borrower option

With short-term interest rates being lower than long-term rates, it was more cost effective in the short-term to borrow short-term loans from the market, mainly from other local authorities. Whilst such a strategy is most likely to be beneficial over the next year as official interest rates remain low, it is unlikely to be sustained in the medium-term. The Director of Financial Resources will, in conjunction with Arlingclose, continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise and adjust the strategy accordingly.

Overall the average rate of interest paid in 2015/16 on the debt administered by the County Council was 2.03% per annum compared with an average rate of 2.07% in 2014/15, 2.48% in 2013/14 and 2.45% in 2012/13.

The charts below show the maturity profiles of the County Council's debt as at 31 March 2016 which reflect the strategy of recently taking debt on a short term basis.

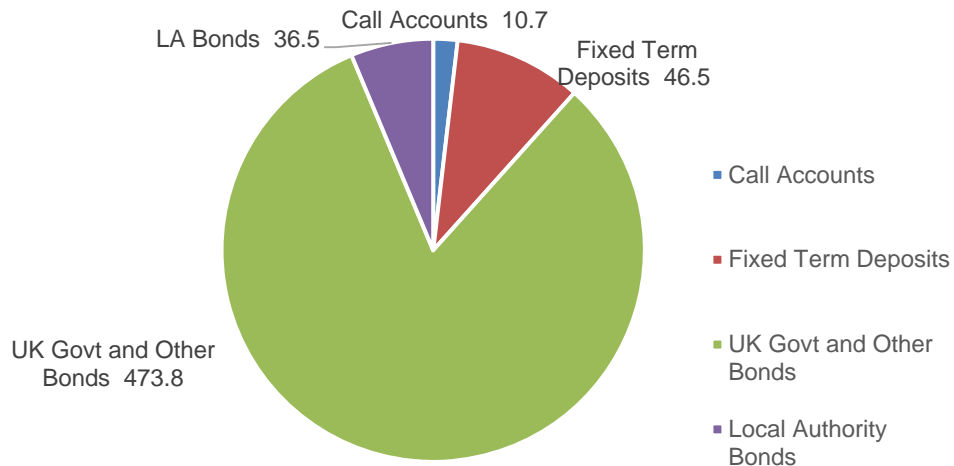


Investment Activity

The County Council holds investments as it holds reserves and other cash balances in its Balance Sheet. The total amount of investments (excluding fair value adjustment) held by Lancashire County Council at 31st March 2016 is £577.52m. This is £59m lower than at 31st March 2015. The table below shows the holding of investments:

Maturity Range	Position as at 31/3/15 £m	2015/16 Movement £m	Position as at 31/3/16 £m
Call, Money Market Funds & Under 1yr	181.71	-161.00	20.71
Bank Deposit 1-2 Years	10.00	-10.00	0.00
Bank & Local Authority Deposits 2-3 years	36.50	0.00	36.50
Bank & Local Authority Deposits 3-5 Years	10.00	-10.00	0.00
Bank Deposit 5 Years +	0.00	10.00	10.00
Local Authority Bonds	36.70	-0.25	36.45
UK Government and Supranational Bonds	361.66	112.20	473.86
Total	636.57	-59.05	577.52

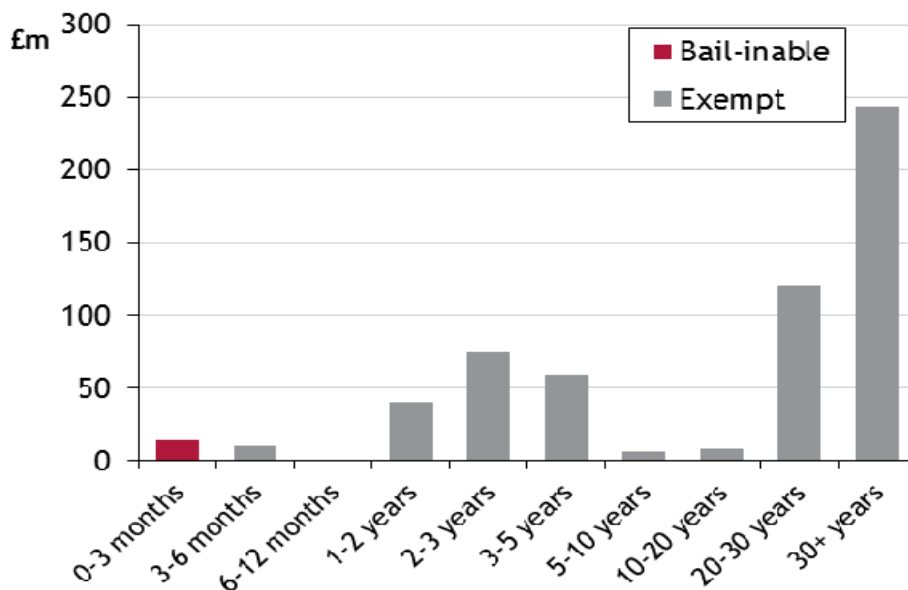
LCC Investments Asset Classes (£m) As at 31 March 2016



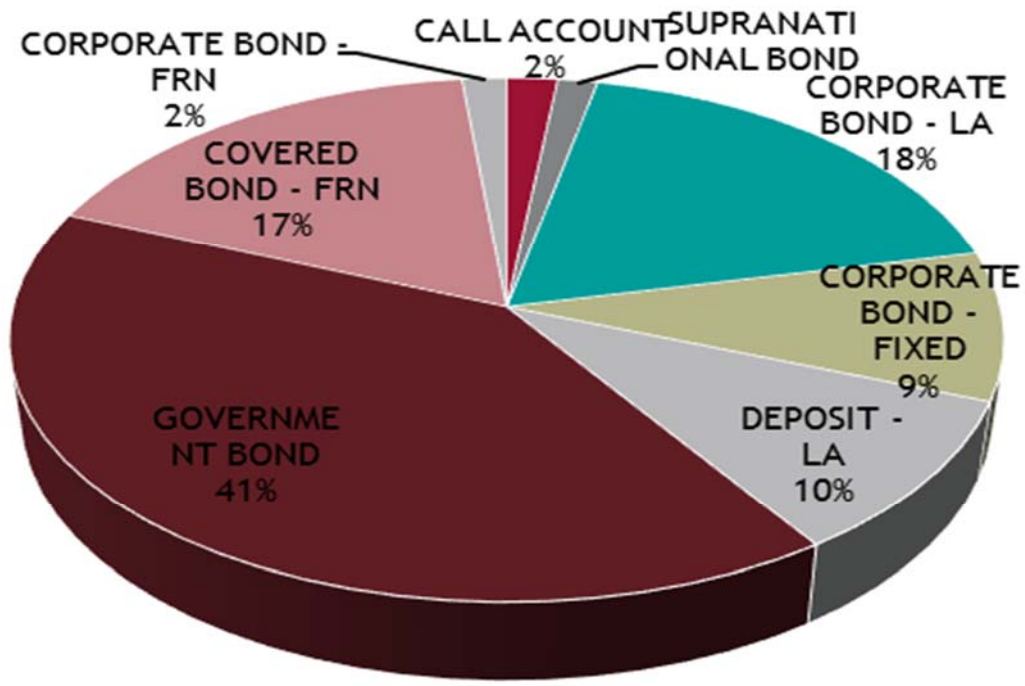
In undertaking investments consideration is taken on the risk and liquidity within the portfolio. Some of the factors considered are the maturity of the investment, the asset type, the country invested in and the credit rating. The position of the investment portfolio on these areas are shown in the graphs below.

Investments by Maturity

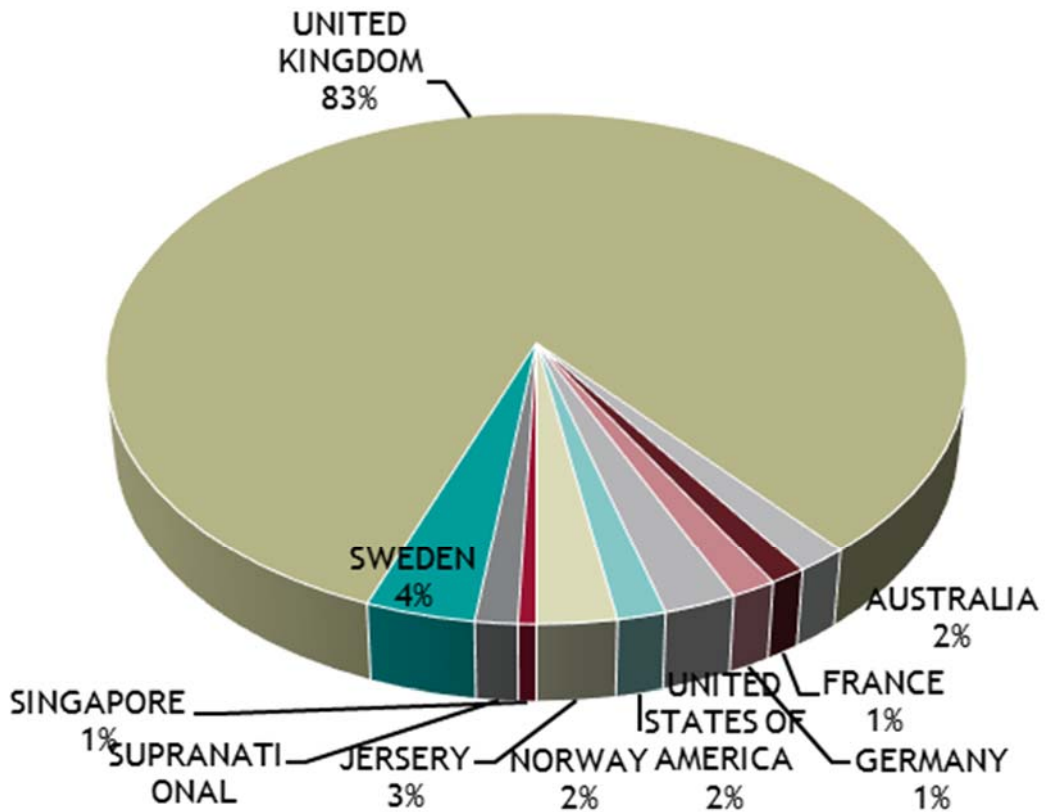
The graph below shows the maturity dates of assets against their exposure to bail-in risk in the event of a bank default (i.e. the risk that the investment may be lost or the principal repaid significantly reduced). The County Council has been moving away from unsecured bank deposits as an asset class and apart from on call balances they no longer form an allowable investment class under the 2015/16 Treasury Management Policy.



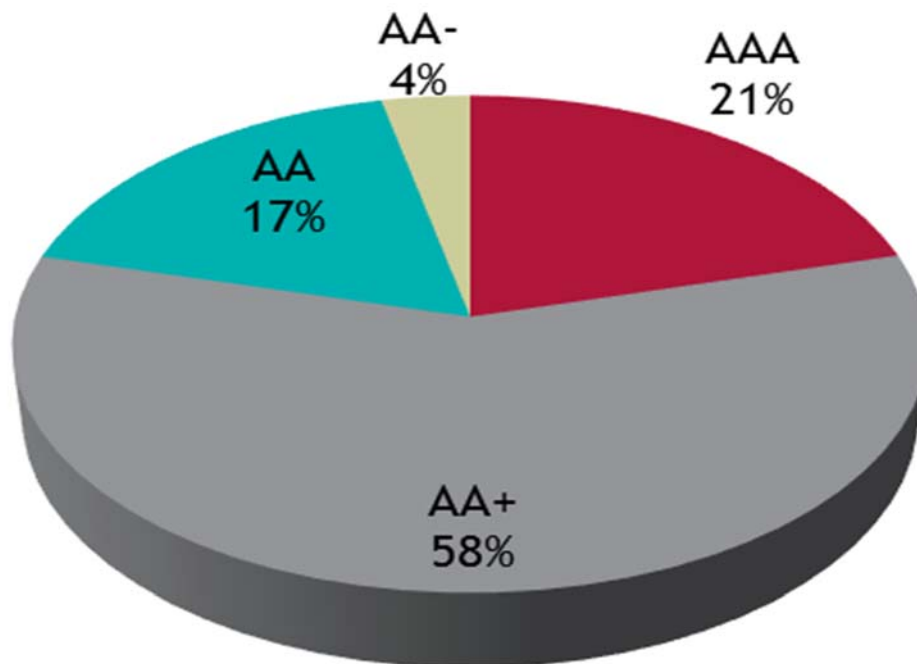
Total investments analysed by asset type



Total Investments analysed by Country



Total Investments analysed by credit rating



Investments are very secure, with over 75% rated AAA or AA+, with the others rated at A or above. The average credit score of 1.88/AA+ is well within the policy limit of 5/A+.

Security of capital remained the County Council's main investment objective. This was maintained by following the County Council's Counterparty Policy, as set out in its Treasury Management Strategy Statement for 2015/16. This defined "high credit quality" organisations as those having a minimum long-term credit rating of A+ In practice the average credit rating in 2015/16 was higher at AA+.

Investments with banks were held in call accounts only. Any longer term deposits have been restricted to other local authorities.

Liquidity Management

In keeping with the CLG's Guidance on Investments, the County Council maintained a minimum level of primary liquidity of £20.00m through the use of Call Accounts. The County Council also has bond portfolios which are available for sale, at current market prices, if needed as "secondary" liquidity.

The County Council uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed.

Yield

The rates of return on the County Council's short-dated money market investments reflect prevailing market conditions and the County Council's objective of optimising returns commensurate with the principles of security and liquidity.

Income of £26.579m was earned on longer-dated investments .Overall the investment portfolios returned an average rate of 3.78% in 2015/16 which can be attributed to the categories as follows:

Maturity Range	Amount 31/3/16 £m	Average Rate 15/16
Call, MMF & Under 1 year	20.71	1.47%
Bank & Local Authority Deposits 2-3 years	36.50	1.44%
Bank Deposits 5 years +	10.00	2.95%
Local Authority Bonds	36.45	3.73%
UK Government & Supranational Bonds	473.86	4.44%
Total	577.52	3.78%

4. Impact of the Treasury Management Strategy on the County Council's revenue budget

The table below shows a net underspend of £30.984m on the financing charges budget. Of this £17.60m has arisen as a result of changes to the Minimum Revenue Provision (MRP) calculation as agreed by the County Council in February 2016. The MRP is an annual charge to the revenue account to pay for capital expenditure that was originally funded by debt. The County Council is required to make a prudent charge each year and the review of the calculation has arisen partly to reflect changes in funding received to support the charge from Central Government Grants.

Income received in the year was £16.60m higher than initially anticipated. The forecast surplus on interest received arose primarily because the County Council's low risk investment portfolios increased in value as a result of market movements during the year. This enabled some core GILT bonds to be sold resulting in a net gain of £9.90m. There have also been net gains of £6.40m resulting from sales on the traded bond portfolio.

Financing Charges 2015/16 – End of Year Position

	Budget 15/16 £m	Year End Position £m	Variance £m
MRP	37.085	19.446	-17.639
Interest Paid	22.308	25.584	3.276
Interest Received	-12.990	-29.611	-16.621
Total	46.403	15.419	-30.984

5. Treasury Management and Prudential Indicators 2015/16

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the Prudential Code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 31 March 2016 compared to the indicators set in the Treasury Management Strategy for 2015/16 is set out below.

Prudential Indicators

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

2. Authorised limit for external debt A prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.	2015/16	2015/16 Actual
	£m	£m
Borrowing	1,300.00	974.00
Other long term liabilities (PFI schemes)	250.00	168.00
TOTAL	1,550.00	1,144.00

3. Operational boundary for external debt	2015/16	2015/16 Actual
The Operational Boundary is a prudent estimate of debt but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.		
	£m	£m
Borrowing	1,250.00	974.00
Other long term liabilities (PFI schemes)	200.00	168.00
TOTAL	1,450.00	1,144.00

4. Capital Financing Requirement to Gross Debt	2015/16	2015/16 Actual
The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.		
	£m	£m
Capital Financing Requirement (borrowing)	861.00	811 .00
Estimated gross debt	1,010.00	974.00
Debt to Capital Financing Requirements	117%	120%

Gross borrowing appears higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing, but it does not form part of the capital financing requirement calculation.

5. Council Tax Indicators	2015/16	2015/16 Actual
Ratio of financing costs to the net revenue stream	5.81%	2.12%
Estimated revenue impact of capital investment on Band D	41.05	19.99

Treasury Management Indicators

1. Interest Rate exposure	Upper Limit	Actual
The limit measures the County Council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.		
	£m	£m
Net Interest Payable – Fixed Rate	50.40	7.70
Net Interest Payable – Variable Rate	5.00	2.90
1 year impact of a 1% rise	10.00	2.30

2. Maturity structure of debt	Lower Limit %	Upper Limit %	Actual %
The limit on the maturity structure of debt helps control refinancing risk.			
Under 12 months	-	75	40
12 months and within 2 years	-	75	5
2 years and within 5 years	-	75	28
5 years and within 10 years	-	75	5
10 years and above	25	100	22

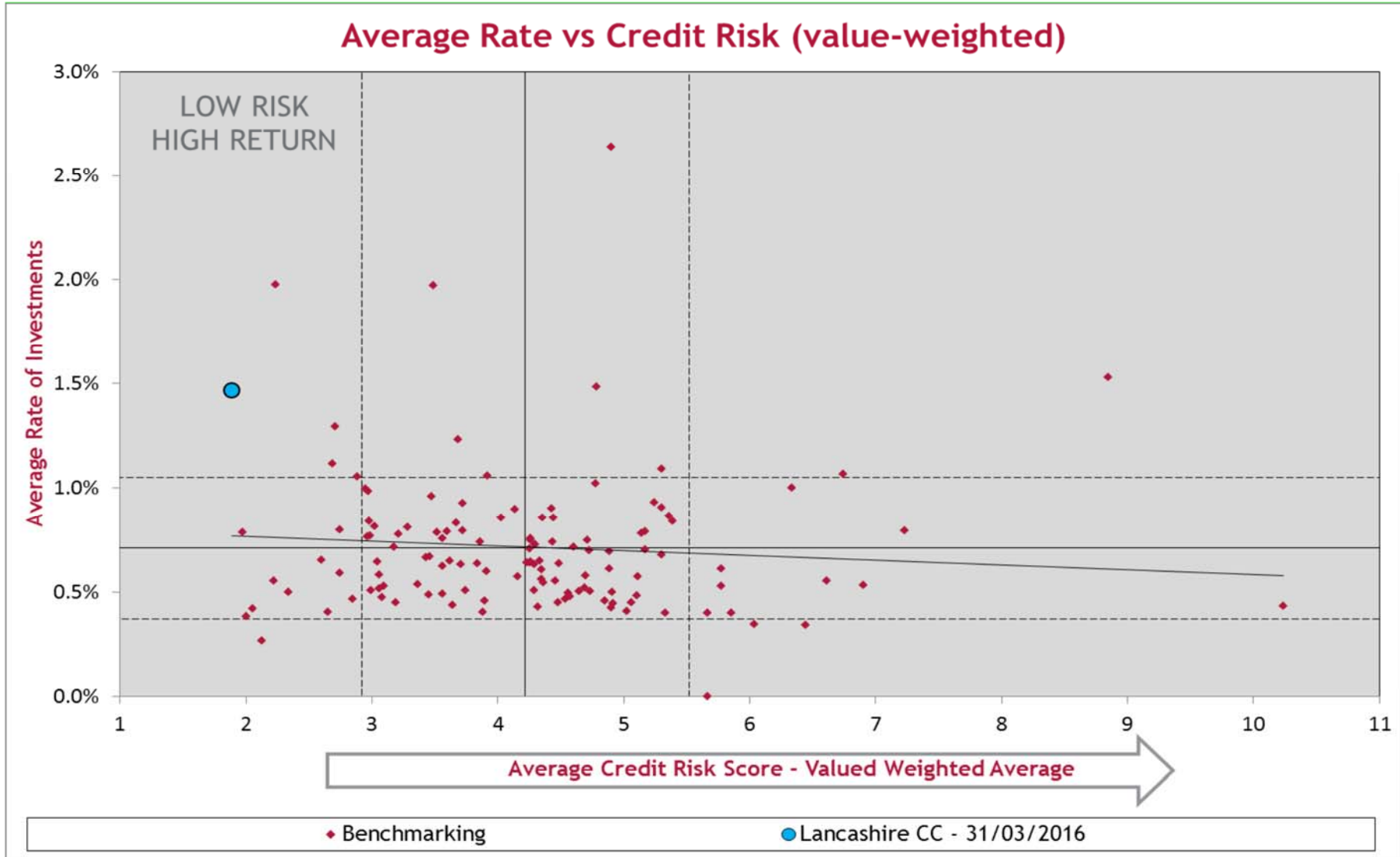
3. Investments over 364 days	Upper Limit	Actual
The limit on the level of long term investments helps to control liquidity, although the majority of these investments are held in available for sale securities.		
	£m	£m
Total invested over 364 days	900.00	557.00

4. Minimum Average Credit Rating To control credit risk the County Council requires a very high credit rating from its treasury counterparties.	Benchmark	Actual
Average counterparty credit rating	A+	AA+

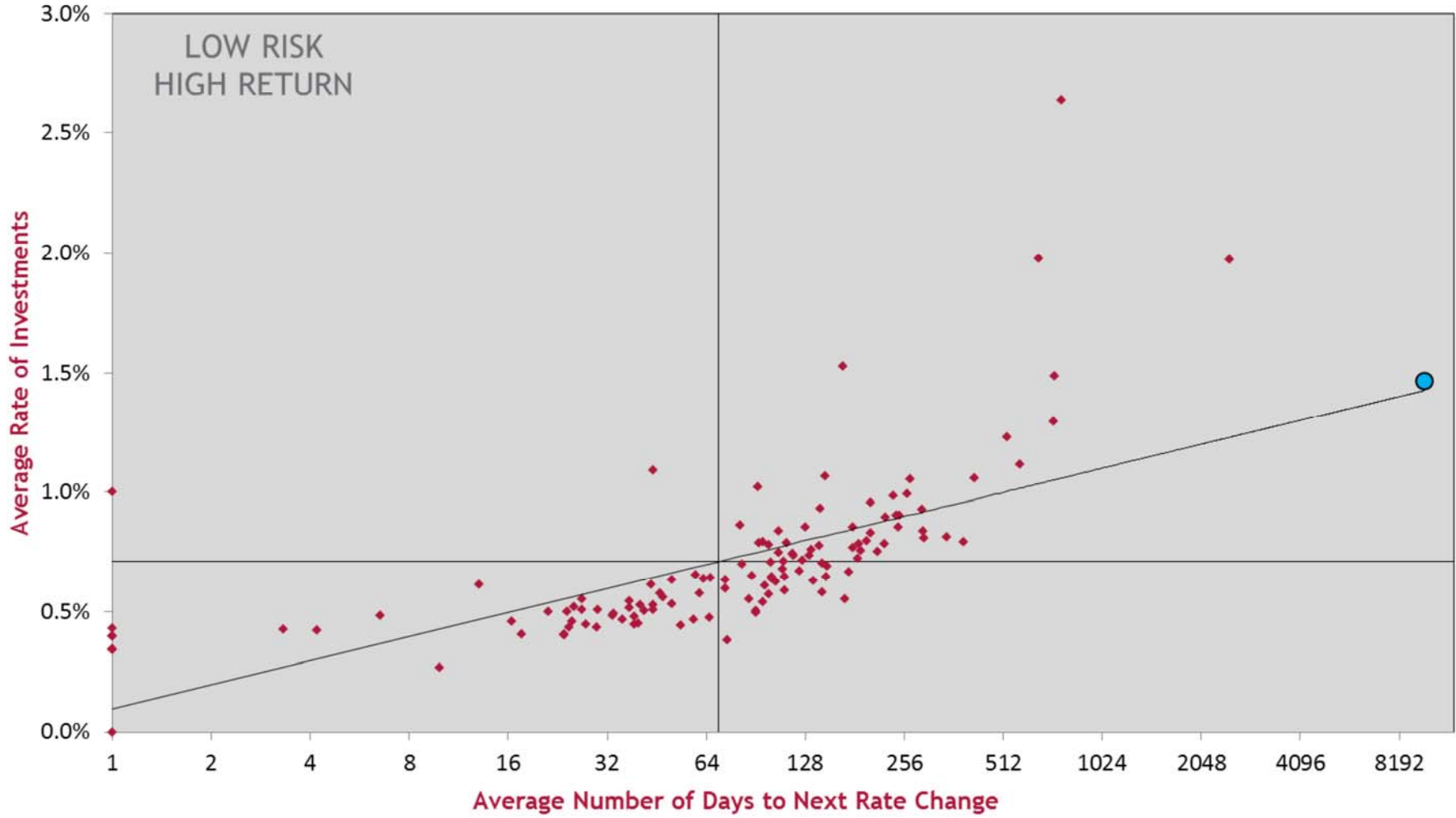
The County Council confirms that it has complied with its Prudential Indicators for 2015/16, which were approved on as part of the County Council's Treasury Management Strategy Statement. The County Council also confirms that during 2015/16 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

6. Arlingclose Credit Risk Comparisons

The County Council's Treasury Advisor, Arlingclose, compares the credit risk of its clients. This comparison shows that at 31 March 2016 the County Council has one of the lowest credit risk scores of all of its clients. This comparison is shown graphically overleaf.



Average Rate vs Duration



Audit and Governance Committee
Meeting to be held on 30th June 2016

Electoral Division affected: All

The Council's Code of Corporate Governance
(Appendices 'A' & 'B' refer)

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Executive Summary

The Full Council in July 2015 approved a new Code of Corporate Governance for the County Council and an Action Plan for 2015/16. This was based on the current guidance at that time. Full Council also agreed that the Code would be reviewed on an annual basis.

However, new guidance was published earlier this year and as a consequence the Code of Corporate Governance has been updated to reflect the changes. Therefore, the Committee is asked to consider the revised Code of Corporate Governance and whether it wishes to make any changes to recommend to Full Council. The Committee is also asked to consider the outcomes of the Action Plan agreed for 2015/16 that was based on the previous Code.

Recommendation

The Committee is asked to consider:

1. the revised Code of Corporate Governance and any amendments it wishes to make for recommendation to Full Council for approval.
2. the updates set out in the report on the implementation of the Action Plan for 2015/16.

Background and Advice

In July 2015 the Full Council approved a new Code of Corporate Governance for the County Council and agreed that the Code would be reviewed by the County Council every year. The Full Council also approved an Action Plan to the Code for 2015/16. The Code has been widely communicated to members, officers and stakeholders.

The Code was based on CIPFA and the Society of Local Authority of Chief Executives (SOLACE) best practice guidance: Delivering Good Governance in Local Government Framework document, and should articulate and be consistent with the expected standards, principles and values by which Lancashire County Council Officers and Members will operate. There should be clear links between the principles within the Code, and the governance framework of strategies, policies and procedures which underpin it. The Code should be consistent with the core principles defined in the CIPFA/SOLACE Framework, each supported by sub-principles that should underpin the governance framework of a local authority. The Code was also in a format that included sources of evidence providing clarity for Members, Officers and stakeholders about how the organisation uses the principles of the Code in practice.

However, since agreeing the Code of Corporate Governance, the guidance referred to above has been updated and a new set of principles have been agreed by CIPFA/SOLACE (see appendix A).

Therefore, the Code now presented at Appendix 'B' has been updated to reflect the seven new core principles and includes sources of evidence as previously shown. The Committee is asked to consider any amendments or revisions it wishes to make to the Code before submission to Full Council for approval.

Last year, the Council also approved, on the Committee's recommendation, a five point action plan on the Code as set out as follows:

Code of Corporate Governance Action Plan

Key Action	Responsible Officer
<p>1. Clearly setting out the purpose of the County Council, outcomes for the community and creating and implementing a vision for Lancashire through a new Corporate Strategy</p> <p>A draft Corporate Strategy, has been produced and has been subject to Consultation. Cabinet considered the Strategy document and the approach contained within it at its meeting of the 26 November 2015. The Strategy was submitted to full Council on the 17 December 2015. The Strategy was debated and amendments agreed. It was resolved that the Corporate Strategy, as now amended, be approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration. That review process is ongoing.</p>	<p>Director of Corporate Commissioning</p>

<p>2. Develop service/commissioning plans that reflect new service offers and priorities in the corporate strategy.</p> <p>This work is ongoing and has been informed by the work undertaken to deliver the base budget review and the draft Corporate Strategy. The Corporate Strategy and the principles contained within it have also guided the preparation of the Capital Programme.</p> <p>Service/commissioning plans will continue to be refined as documents that support the core Strategy of the Corporate Plan and as the approach to service delivery is finalised. These will include the Neighbourhoods Plan. In addition to this detailed service plans and commissioning plans, with clear delivery expectations, will be refined as part of the current review processes for young peoples and adults services.</p>	<p>Director of Corporate Commissioning</p>
<p>3. Develop appropriate service standards</p> <p>Service standards are being comprehensively reviewed, linked to the development of the Neighbourhoods plan, resource availability and ongoing service reviews. The target date for completion is December 2016 although the standards will be subject to regular review and performance monitoring.</p>	<p>Director of Corporate Commissioning</p>
<p>4. Update partnership protocol The Partnership Protocol is designed to ensure that Officers and Members can utilise best practice guidance to assist them to participate in and facilitate partnership working where it supports delivery of the Council's Corporate Strategy.</p> <p>The Protocol includes a partnership evaluation template that is designed as a guide to the key issues to be taken into account when a new partnership is under consideration. It also includes a partnership review template that is designed to facilitate the review process, prompting the key areas which should be addressed to evaluate a partnership's on-going viability.</p> <p>The Partnership Protocol has been updated and will be posted on the intranet, C-first and the County Council's external website.</p>	<p>Director of Public Health & Wellbeing</p>

<p>5. Develop consistent approach to risk management and produce a corporate risk register</p> <p>A Risk & Opportunity Register has been developed by Management Team and relevant directors/heads of service, providing a brief, high level description of risks and opportunities along with the current controls and further proposed mitigating actions. The Register also includes "risk scores" for both before and after the application of mitigating actions based on a scoring matrix.</p> <p>A corporate approach to reporting on risk and opportunity has also been agreed. Risk and Opportunity reports will be provided to Management Team on a quarterly basis, following which the reports would then go to the Cabinet Committee for Performance Improvement and then to the Audit and Governance Committee. The first quarterly reports have been presented to both Committees and an indicative timetable for the next twelve months has been agreed.</p> <p>At their meeting on the 25th January 2016, members of the Audit and Governance Committee received training on risk management and a programme of training is being delivered for Risk Champions within service areas.</p> <p>A Risk Management intranet site has been developed and a handbook for staff and councillors has been produced setting out the adopted approach. Risks and opportunities will also be incorporated into Quality of Service and Highlight reports.</p>	<p>Management Team</p>
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Updates on the above agreed actions are also set out for the Committee's consideration. In a couple of areas progress has not been possible due to a number of factors so it is proposed that these actions are rolled over into the 16/17 action plan. The Committee is also asked to consider if it wants any additional actions adding to the Plan for 2016/17.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables a local authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. A local authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a local Code of Corporate Governance and publish an Annual Governance Statement (AGS) would mean that the Council would be failing in its responsibilities for ensuring accountability and the proper conduct of public business.

Legal Implications

The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the AGS. The best practice guidance is recognised as the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government (2016).

Financial Implications

Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

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

Paper	Date	Contact/Service/Tel
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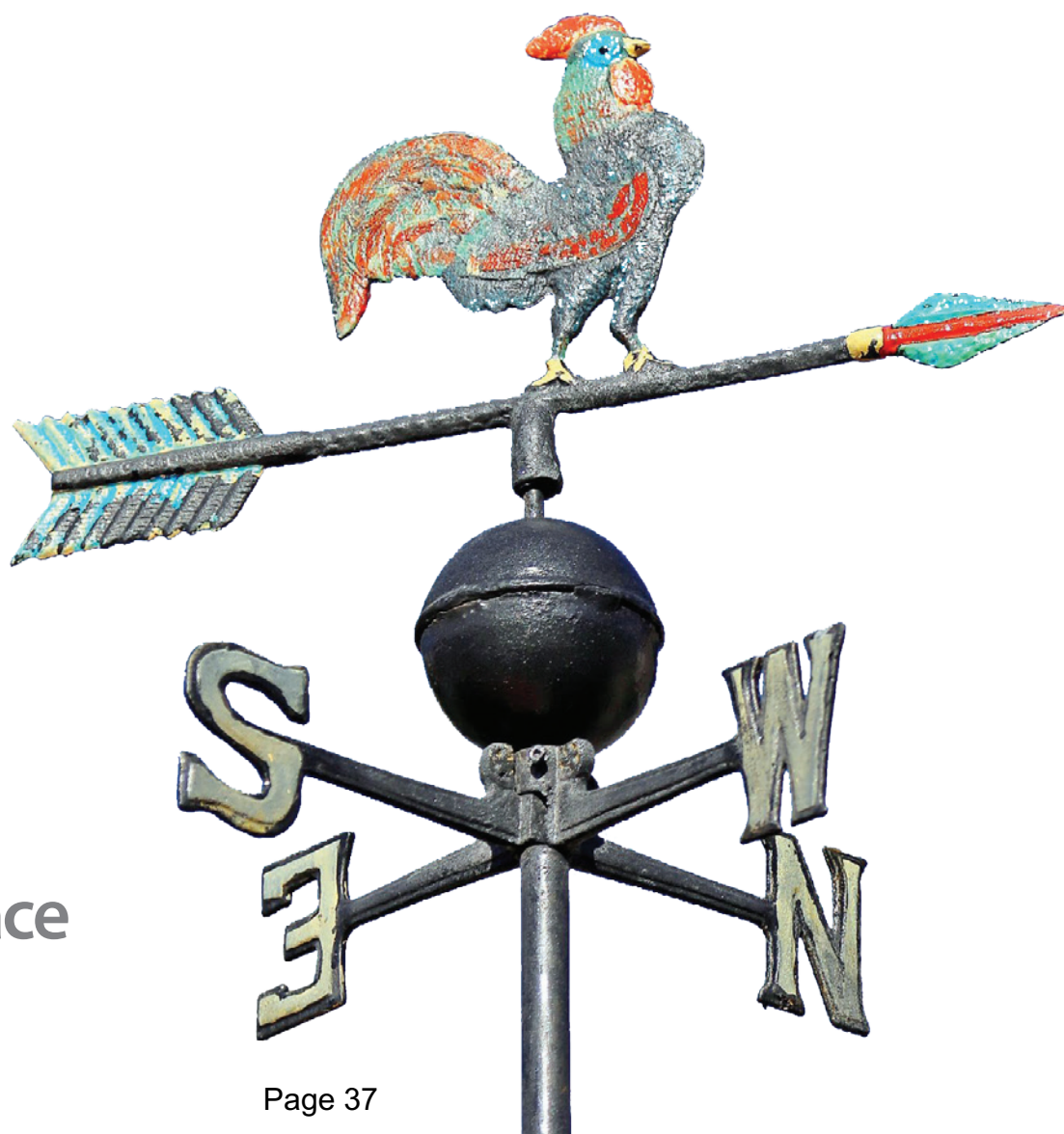
N/A

Reason for inclusion in Part II, if appropriate

N/A

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delivering good governance

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Framework
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CHAPTER ONE

Introduction

- 1.1** Governance arrangements in the public services are keenly observed and sometimes criticised. Significant governance failings attract huge attention – as they should – and one significant failing can taint a whole sector. Local government organisations are big business and are vitally important to tax payers and service users. They need to ensure that they meet the highest standards and that governance arrangements are not only sound but are seen to be sound.
- 1.2** It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant. The main principle underpinning the development of the new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) ('the Framework') continues to be that local government is developing and shaping its own approach to governance, taking account of the environment in which it now operates. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 1.3** The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes give the role of local government its meaning and importance, and it is fitting that they have this central role in the sector's governance. Furthermore, the focus on sustainability and the links between governance and public financial management are crucial – local authorities must recognise the need to focus on the long term. Local authorities have responsibilities to more than their current electors as they must take account of the impact of current decisions and actions on future generations.

CHAPTER TWO

Status

- 2.1** Section 3.7 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 notes:

Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, Regulation 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England) (as a part of the Annual Accounts (Scotland)). Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland the statement is an Annual Governance Statement.

The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be “prepared in accordance with proper practices in relation to accounts”. Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016) and this section of the Code.

- 2.2** This Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

CHAPTER THREE

Requirements

- 3.1** The Framework defines the principles that should underpin the governance of each local government organisation. It provides a structure to help individual authorities with their approach to governance. Whatever form of arrangements are in place, authorities should therefore test their governance structures and partnerships against the principles contained in the Framework by:
- reviewing existing governance arrangements
 - developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness
 - reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.
- 3.2** The term ‘local code’ essentially refers to the governance structure in place as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents.
- 3.3** To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.
- 3.4** It is also crucial that the Framework is applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation, and are reflected in behaviour and policy, are hallmarks of good governance.

Applicability and terminology

APPLICABILITY

- 4.1** The Framework is for all parts of local government and its partnerships, including:
- county councils
 - district, borough and city councils
 - metropolitan and unitary councils
 - the Greater London Authority and functional bodies
 - combined authorities, city regions, devolved structures
 - the City of London Corporation
 - combined fire authorities
 - joint authorities
 - police authorities, which for these purposes since 2012 includes both the police and crime commissioner (PCC) and the chief constable
 - national park authorities.
- 4.2** The Framework is applicable to a system involving a group of local government organisations as well as to each of them individually. The Framework principles are therefore intended to be relevant to all organisations and systems associated with local authorities, ie joint boards, partnerships and other vehicles through which authorities now work. However, a one-size-fits-all approach to governance is inappropriate. Not all parts of the Framework will be directly applicable to all types and size of such structures, and it is therefore up to different authorities and associated organisations to put the Framework into practice in a way that reflects their structures and is proportionate to their size.

TERMINOLOGY

- 4.3** The terms ‘authorities’, ‘local government organisations’ and ‘organisations’ are used throughout this Framework and should be taken to cover any partnerships and joint working arrangements in operation.
- 4.4** In the police service, where the accountabilities rest with designated individuals rather than a group of members, terms such as ‘leader’ should be interpreted as relating to the PCC or the chief constable as appropriate.

CHAPTER FIVE

Guidance notes

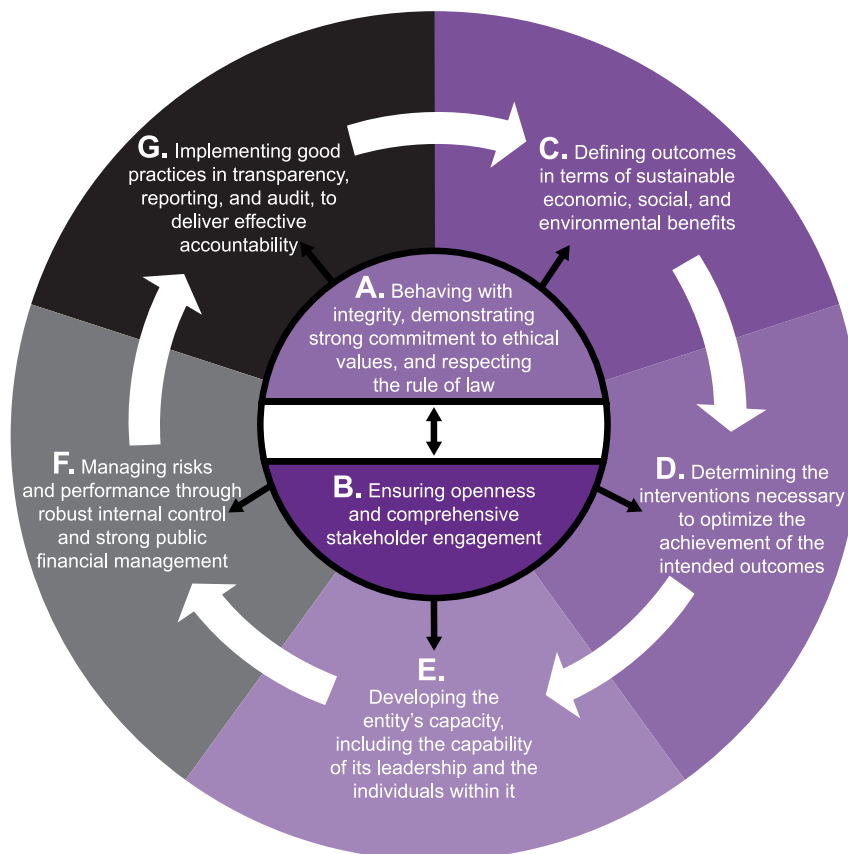
- 5.1** In recognition of the separate legislation applicable to different parts of local government, guidance notes to accompany the Framework have been developed for:
- local government in England (excluding police)
 - local government in Wales (excluding police)
 - police in England and Wales
 - local government in Scotland.
- 5.2** The guidance notes, which should be used in conjunction with the Framework, are intended to assist authorities across their governance systems, structures and partnerships in reviewing their governance arrangements. It will also help them in interpreting the overarching principles and terminology contained in the Framework in a way that is appropriate for their governance structures, taking account of the legislative and constitutional arrangements that underpin them.

The principles of good governance – application

DEFINING THE CORE PRINCIPLES AND SUB-PRINCIPLES OF GOOD GOVERNANCE

6.1 The diagram below, taken from the *International Framework: Good Governance in the Public Sector* (CIPFA/IFAC, 2014) (the ‘International Framework’), illustrates the various principles of good governance in the public sector and how they relate to each other.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



The International Framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

DEFINING GOVERNANCE

6.2 The International Framework defines governance as follows:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The International Framework also states that:

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

6.3 In local government, the governing body is the full council or authority. In the police, PCCs and chief constables are corporations sole and are jointly responsible for governance. The many references to 'members' in the tables which follow should be read in the context that the principles set out apply equally in the police.

PRINCIPLES OF GOOD GOVERNANCE IN LOCAL GOVERNMENT

6.4 The core principles and sub-principles of good governance set out in the table below are taken from the International Framework. In turn they have been interpreted for a local government context.

It is up to each local authority or local government organisation to:

- set out its commitment to the principles of good governance included in this Framework
- determine its own governance structure, or local code, underpinned by these principles
- ensure that it operates effectively in practice.

Core principles and sub-principles of good governance

Core principles (shown in bold)	Sub-principles (shown in bold)
Acting in the public interest requires a commitment to and effective arrangements for:	Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity
<p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>	<ul style="list-style-type: none"> ■ Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation ■ Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) ■ Leading by example and using the above standard operating principles or values as a framework for decision making and other actions ■ Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively
	Demonstrating strong commitment to ethical values
	<ul style="list-style-type: none"> ■ Seeking to establish, monitor and maintain the organisation’s ethical standards and performance ■ Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation ■ Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values ■ Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

Core principles (shown in bold)	Sub-principles (shown in bold)
	<p>Respecting the rule of law</p> <ul style="list-style-type: none"> ■ Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations ■ Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements ■ Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders ■ Dealing with breaches of legal and regulatory provisions effectively ■ Ensuring corruption and misuse of power are dealt with effectively
<p>B. Ensuring openness and comprehensive stakeholder engagement</p> <p>Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>	<p>Openness</p> <ul style="list-style-type: none"> ■ Ensuring an open culture through demonstrating, documenting and communicating the organisation’s commitment to openness ■ Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided ■ Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear ■ Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action <p>Engaging comprehensively with institutional stakeholders</p> <p>NB institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.</p> <ul style="list-style-type: none"> ■ Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

Core principles (shown in bold)**Sub-principles (shown in bold)**

- Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- Ensuring that partnerships are based on:
 - trust
 - a shared commitment to change
 - a culture that promotes and accepts challenge among partners

and that the added value of partnership working is explicit

Engaging with individual citizens and service users effectively

- Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
- Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement
- Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
- Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account
- Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
- Taking account of the impact of decisions on future generations of tax payers and service users

Principles (shown in bold)	Sub-principles (shown in bold)
<p>In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:</p>	<p>Behaviours and actions that demonstrate good governance in practice are illustrated in the bullet points.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p> <p>The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	<p>Defining outcomes</p> <ul style="list-style-type: none"> ■ Having a clear vision, which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation’s overall strategy, planning and other decisions ■ Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer ■ Delivering defined outcomes on a sustainable basis within the resources that will be available ■ Identifying and managing risks to the achievement of outcomes ■ Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available <p>Sustainable economic, social and environmental benefits</p> <ul style="list-style-type: none"> ■ Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision ■ Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation’s intended outcomes and short-term factors such as the political cycle or financial constraints ■ Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs ■ Ensuring fair access to services

Principles (shown in bold)	Sub-principles (shown in bold)
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p> <p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.</p>	<p>Determining interventions</p> <ul style="list-style-type: none"> ■ Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided ■ Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts <p>Planning interventions</p> <ul style="list-style-type: none"> ■ Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets ■ Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered ■ Considering and monitoring risks facing each partner when working collaboratively, including shared risks ■ Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances ■ Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured ■ Ensuring capacity exists to generate the information required to review service quality regularly ■ Preparing budgets in accordance with objectives, strategies and the medium term financial plan ■ Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

Principles (shown in bold)	Sub-principles (shown in bold)
	<p>Optimising achievement of intended outcomes</p> <ul style="list-style-type: none"> ■ Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints ■ Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term ■ Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage ■ Ensuring the achievement of ‘social value’ through service planning and commissioning
<p>E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</p> <p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<p>Developing the entity’s capacity</p> <ul style="list-style-type: none"> ■ Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness ■ Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently ■ Recognising the benefits of partnerships and collaborative working where added value can be achieved ■ Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources <p>Developing the capability of the entity’s leadership and other individuals</p> <ul style="list-style-type: none"> ■ Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained ■ Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body ■ Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other’s authority

Principles (shown in bold)**Sub-principles (shown in bold)**

- Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:
 - ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
 - ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
 - ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
- Ensuring that there are structures in place to encourage public participation
- Taking steps to consider the leadership’s own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections
- Holding staff to account through regular performance reviews which take account of training or development needs
- Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Principles (shown in bold)	Sub-principles (shown in bold)
<p>F. Managing risks and performance through robust internal control and strong public financial management</p> <p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.</p> <p>It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	<p>Managing risk</p> <ul style="list-style-type: none"> ■ Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making ■ Implementing robust and integrated risk management arrangements and ensuring that they are working effectively ■ Ensuring that responsibilities for managing individual risks are clearly allocated <p>Managing performance</p> <ul style="list-style-type: none"> ■ Monitoring service delivery effectively including planning, specification, execution and independent post implementation review ■ Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation’s financial, social and environmental position and outlook ■ Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation’s performance and that of any organisation for which it is responsible (Or, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making ■ Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement ■ Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

Principles (shown in bold)**Sub-principles (shown in bold)****Robust internal control**

- Aligning the risk management strategy and policies on internal control with achieving objectives
- Evaluating and monitoring risk management and internal control on a regular basis
- Ensuring effective counter fraud and anti-corruption arrangements are in place
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
- Ensuring an audit committee or equivalent group/function, which is independent of the executive and accountable to the governing body:
 - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
 - that its recommendations are listened to and acted upon

Managing data

- Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies
- Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

Strong public financial management

- Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance
- Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Principles (shown in bold)	Sub-principles (shown in bold)
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p> <p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	<p>Implementing good practice in transparency</p> <ul style="list-style-type: none"> ■ Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate ■ Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand <p>Implementing good practices in reporting</p> <ul style="list-style-type: none"> ■ Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way ■ Ensuring members and senior management own the results reported ■ Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) ■ Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate ■ Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations <p>Assurance and effective accountability</p> <ul style="list-style-type: none"> ■ Ensuring that recommendations for corrective action made by external audit are acted upon ■ Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon ■ Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations ■ Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement ■ Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

Annual review and reporting

THE ANNUAL GOVERNANCE STATEMENT

- 7.1** Local authorities are required to prepare an annual governance statement (see Chapter two) in order to report publicly on the extent to which they comply with their own code of governance, which in turn is consistent with the good governance principles in this Framework. This includes how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.
- 7.2** The annual governance statement is a valuable means of communication. It enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes. It should reflect an individual authority's particular features and challenges.
- 7.3** The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style.
- 7.4** The annual governance statement should be focused on outcomes and value for money and relate to the authority's vision for the area. It should provide an assessment of the effectiveness of the authority's governance arrangements in supporting the planned outcomes – not simply a description of them. Key elements of an authority's governance arrangements are summarised in the next section.
- 7.5** The annual governance statement should include:
- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
 - reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate
 - 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 in accordance with the governance framework

- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
 - reference to how issues raised in the previous year's annual governance statement have been resolved
 - a conclusion – a commitment to monitoring implementation as part of the next annual review.
- 7.6** The annual governance statement should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority.
- 7.7** The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance).
- 7.8** Local authorities are required to include the annual governance statement with their statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority's performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published. It is important that it is kept up to date at time of publication.

GOVERNANCE ARRANGEMENTS

- 7.9** Key elements of the structures and processes that comprise an authority's governance arrangements are summarised below. They do not need to be described in detail in the annual governance statement if they are already easily accessible by the public, for example through the authority's code of governance.
- Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.
 - Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
 - Documenting a commitment to openness and acting in the public interest.
 - Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
 - Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.
 - Translating the vision into courses of action for the authority, its partnerships and collaborations.
 - Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.
 - Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.

- Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.
- Ensuring that financial management arrangements conform with the governance requirements of the [CIPFA Statement on the Role of the Chief Financial Officer in Local Government \(2015\)](#) or [CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable \(2014\)](#) as appropriate and, where they do not, explain why and how they deliver the same impact.
- Ensuring effective arrangements are in place for the discharge of the monitoring officer function.
- Ensuring effective arrangements are in place for the discharge of the head of paid service function.
- Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.
- Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.
- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the [Code of Practice on Managing the Risk of Fraud and Corruption \(CIPFA, 2014\)](#).
- Ensuring an effective scrutiny function is in place.
- Ensuring that assurance arrangements conform with the governance requirements of the [CIPFA Statement on the Role of the Head of Internal Audit \(2010\)](#) and, where they do not, explain why and how they deliver the same impact.
- Undertaking the core functions of an audit committee, as identified in [Audit Committees: Practical Guidance for Local Authorities and Police \(CIPFA, 2013\)](#).
- Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.
- Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.



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Code of Corporate Governance 2016/17

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.

Lancashire County Council is committed to the principles of effective corporate governance and has therefore adopted a Code of Corporate Governance which follows the latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled "Delivering Good Governance in Local Government (2016)"

The guidance defines the seven core principles, each supported by sub-principles that should underpin the governance framework of a local authority.

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules 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.

- Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

What are the benefits of having a Code of Corporate Governance?

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. It enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and the management of risk.

Lancashire County Council has a robust governance framework in place. The documents and arrangements which comprise the framework demonstrate that the Council continually seeks to ensure it is and remains, well governed, through integration of with the core principles of the CIPFA/SOLACE framework into all aspects of the Council's conduct and operation.

The Monitoring Officer is responsible for ensuring the Code is reviewed annually, and the outcome of the review, along with adoption of any revision to the Code is reported annually to the Audit and Governance Committee for approval.

Lancashire County Council Code of Corporate Governance (Principle 1)

Principle 1: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law 	<ul style="list-style-type: none"> • Maintain shared values (Fair, Trustworthy, Ambitious, to have belief in people) both for the County Council and its officers. These are defined in the draft corporate strategy and reflect public expectations about the conduct and behaviour of individuals. • Use shared values as a guide for decision making and as a basis for developing positive and trusting relationships within the County Council. We demonstrate this by adherence to the constitution. • Have adopted formal codes of conduct defining standards of personal behaviour for Members and officers. • Maintain the Audit and Governance Committee to raise awareness and take the lead in ensuring high standards of conduct are embedded within the County Council’s culture. • Have put in place arrangements to ensure that Members and staff of the County Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. We have put in place appropriate processes to ensure that these arrangements are workable including declaration of interests and anti-corruption policies. • Ensure that systems and processes for financial administration and control together with 	<ul style="list-style-type: none"> • Draft Corporate Strategy • The Constitution which includes : <ul style="list-style-type: none"> ➤ Financial Procedure Rules ➤ Procurement Rules ➤ Anti-Fraud and Corruption Strategy ➤ Anti-Bribery Policy ➤ Rules relating to Members External Interests ➤ Rules relating to Gifts and Hospitality ➤ Codes of Conduct for Members and Employees ➤ Scheme of Delegation to officers • Information Security Policy • Information Governance Policy • Money Laundering Policy • Whistleblowing Policy • Annual Governance Statement

protection of the County Council's resources and assets, comply with ethical standards; and are subject to monitoring of their effectiveness.

- Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making if appropriate. Officers will actively recognise the limits of lawful activity placed on them but also strive to utilise their powers to the full benefit of their communities.
- Officers will observe all specific legislative requirements placed upon the Council as well as the requirements of general law, and in particular integrate the key principles of administrative law – rationality, legality and natural justice into the procedures and decision making.
- Have put in place effective systems to protect the rights of staff. We ensure that policies for whistle-blowing which are accessible to staff and those contracting with the Council, and arrangements for the support of whistle-blowers, are in place.
- Have established an information governance group (CIGG) with the remit of collecting assurance information across all council functions.
- Publish an Annual Governance Statement, signed by the Leader of the Council and the Chief Executive to review the effectiveness of the Council's governance framework.

- External inspections of accounts

Lancashire County Council Code of Corporate Governance (Principle 2)

Principle 2: Ensuring openness and comprehensive stakeholder engagement:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Openness • Engaging comprehensively with institutional stakeholders • Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> • Ensure that the Council’s vision, strategic plans, priorities and targets are developed in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated. • Maintain a culture of accountability so that Members and Officers understand to whom they are accountable and for what. • Strive to engage with stakeholders on an individual and collective basis to demonstrate that we deliver services and outcomes that meet the needs and expectations of the public. These arrangements will recognise that different sections of the community have different priorities and establish robust processes for dealing with these competing demands. • Publish reports giving information on the County Council’s strategies, plans and financial statements as well as information about outcomes, achievements. • Deliver effective scrutiny of the County Council’s business as appropriate and produce an annual report on the activities of scrutiny function. • Ensure that the Council as a whole is open and accessible to the community, service users and staff and we are committed to openness and transparency in all dealings. 	<ul style="list-style-type: none"> • Research and Consultation Strategy • Research and Consultation Database • Constitution • Scheme of Delegation • Money Matters Budget reports • Lancashire Health & Wellbeing Strategy • Community Safety Agreement • Director of Public Health Annual Report • Children's and Young Peoples Plan • Statement of Accounts • Scrutiny Reports • County Council Website • Public consultation in relation to proposed policy changes which may have a negative impact on the public,

	<ul style="list-style-type: none">• Publish all executive and committee reports under “Part 1” – open for inspection the public - unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests.	and comply with the public sector equality duty <ul style="list-style-type: none">• Joint Strategic Needs Assessment• Strategic Assessment of Crime & Anti-Social behaviour
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Lancashire County Council Code of Corporate Governance (Principle 3)

Principle 3: Defining outcomes in terms of sustainable economic, social and environmental benefits:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Defining outcomes • Defining sustainable economic, social and environmental outcomes benefits 	<ul style="list-style-type: none"> • Make a clear statement of the Council’s purpose and vision and use it as a basis for corporate and service planning. • Publish annual reports to communicate the Council’s activities and achievements, its financial position and performance. • Ensure that those making decisions are provided with financial and non-financial information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications. • Identify and monitor service performance indicators which demonstrate how the quality of service for users is to be measured. • Maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved. • Ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management. 	<ul style="list-style-type: none"> • Draft Corporate Strategy • Money Matters Budget Reports • Director of Public Health Annual Report • Reports to Audit & Governance Committee • Quality of Service Reports to CCPI • Money Matters reports • Service Standards • Commissioning Plans • Statement of Accounts • External Auditors letter & reports • External Inspections

Lancashire County Council Code of Corporate Governance (Principle 4)

Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Determining interventions. • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • Make a clear statement of the Council’s purpose and vision and use it as a basis for corporate and service planning. • Have risk management arrangements in place including mitigating actions to support the achievement of the Council’s intended outcomes. • Ensure that there are effective arrangements in place to monitor service delivery • Put in place effective arrangements to deal with a failure in service delivery and explore options for improving service delivery and outcomes for our residents. • Have prepared contingency arrangements including disaster recovery plans and business continuity plans to ensure resilience in delivering services, for example during adverse weather conditions. • Provide senior managers and Members with timely financial and performance information. • Ensure that budget calculations are robust • Align financial and performance data to provide an overall understanding of performance. 	<ul style="list-style-type: none"> • Draft Corporate Strategy • Our approach to Risk & Opportunity Management • Corporate Risk & Opportunity Register • Quality of Service Reports • Corporate Performance reports to CCPI • Performance Highlight Reports to Management Team and operational management teams • Business Continuity Plans • Emergency & Resilience Plans

Lancashire County Council Code of Corporate Governance (Principle 5)

Principle 5: Developing the County Council's capacity, including the capability of its leadership and the individuals within it.		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Developing the County Council's capacity • Developing the capability of the County Council's leadership and other individuals 	<ul style="list-style-type: none"> • Through the constitution set out a clear statement of the respective roles and responsibilities of the Council's Executive, the Full Council and individual Members. • Set out a clear statement of the respective roles and responsibilities of the Council's other committees and senior officers. • Have developed protocols to ensure effective communication between Council Members and officers in their respective roles. • Set out the terms and conditions for remuneration of officers and publish an Annual Pay policy statement in accordance with the requirements of the Localism Act 2011. • Review and approve the Members' Allowance Scheme on an annual basis on the recommendation of the Remuneration Panel • Reviewing and updating the scheme of delegation within the constitution on a regular basis • Ensure that effective management arrangements are in place. • Ensure the Chief Executive is responsible and accountable to the Council for all aspects of operational management. • Ensure the S151 Officer has direct access to the Chief Executive and other members of the leadership team. • Support the Section 151 Officer in ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. 	<ul style="list-style-type: none"> • Constitution • Annual Pay Policy Statement • Members' Allowance Scheme • Scheme of Delegation • Interim Structures agreed • Member Development Working Group • Leadership Development Programme • Personal Development Appraisals • Member Development Programme • Member Induction Working Group • Ofsted Post Inspection Improvement Plan

	<ul style="list-style-type: none">• Support the Monitoring Officer in ensuring that the constitution and the Code of Conduct for Elected Members are adhered to.• Assess the skills required by Members including the understanding of financial systems. We will agree a personal development plan to develop skills and address any training gaps, to enable roles to be carried out effectively.• Assess the skills required by officers through the appraisal process and address any training gaps, to enable roles to be carried out effectively.• Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.• Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council.• Provide the Director of Financial Resources with the resources, expertise and systems necessary to perform the role effectively within the County Council.• Provide the Corporate Director Operations and Delivery with the resources, expertise and systems necessary to perform the role effectively within the Council.	
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Lancashire County Council Code of Corporate Governance (Principle 6)

Principle 6: Managing risks and performance through robust internal control and strong public financial management.		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Managing risk • Managing performance • Robust internal control. • Managing data. • Strong public financial management 	<ul style="list-style-type: none"> • Maintain an effective Audit & Governance Committee which is independent of the executive and scrutiny functions. • Enable the Director of Financial Resources to bring influence to bear on all material decisions and provide advice on the levels of reserves and balances to be retained. • Ensure that risk management is embedded into the culture of the County Council, with Members and managers at all levels recognising that risk management is part of their job. • Ensure our arrangements for financial and internal control and management of risk are formally addressed within the annual governance statement. • Ensure effective internal control arrangements exist for sound financial management systems and processes. • Ensure that a Corporate Performance Summary is presented to the Cabinet Committee for Performance Improvement on a quarterly basis • Ensure that quarterly Quality of Service and highlight reports are produced and used to hold Cabinet Members and officers to account 	<ul style="list-style-type: none"> • Audit & Governance Committee • Money Matters Budget Reports • Approach to Risk Management and publication of a quarterly Corporate Risk & Opportunity Register • Annual Governance Report • Performance reports presented to CCPI • Internal Audit Reports • Quality of Service Reports

Lancashire County Council Code of Corporate Governance (Principle 7)

Principle 7: Implementing good practices in transparency, reporting and audit to deliver effective accountability		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practices in reporting • Assurance and effective accountability 	<ul style="list-style-type: none"> • Comply with the local government transparency code and publish all required information in a timely manner. • Have established a medium term financial planning process in order to deliver a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process; all of which are subject to regular review. • Put in place effective transparent and accessible arrangements for dealing with complaints. • Maintain an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall. • Maintain an effective Audit Committee which is independent of the Executive and Scrutiny committees. • Ensure an effective internal audit function is resourced and maintained. • Maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based. • Publish all executive and committee reports under "Part 1" – open to inspection by the public - unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests. 	<ul style="list-style-type: none"> • MTFS • Complaints Procedures • Scrutiny Committees • Audit & Governance Committee • Constitution • Modern.Gov • Whistle-blowing Policy • Monthly budget monitoring reports • Annual Pay Policy Statement

	<ul style="list-style-type: none">• Put in place arrangements for whistle-blowing to which staff and all those contracting with the County Council have access.• Produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the Council.• Maintain effective arrangements for determining the remuneration of senior staff and publish an Annual Pay Policy statement in accordance with the requirements of the Localism Act 2011.• Publish annually details of County Councillors' allowances and expenses	
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Audit and Governance Committee

Meeting to be held on 30 June 2015

Electoral Division affected: All

The Council's Annual Governance Statement 2015/16

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

The County Council is required to produce and approve an Annual Governance Statement (AGS) which will be included in its Annual Statement of Accounts for 2015/16.

A draft AGS is presented for the Committee's consideration at Appendix 'A'.

Recommendation

The Committee is asked to:

1. Consider and approve the draft Annual Governance Statement for 2015/16 for inclusion in the draft Statement of Accounts.
2. Note that the Annual Governance Statement will be signed by the Chief Executive and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts.

Background and Advice

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, 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.

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.

In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number of actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis. However, since adopting the code, revised guidance has been published and a revised code of corporate governance appears elsewhere on this agenda for the committee's consideration.

The Committee is asked to consider and approve the draft Annual Governance Statement presented at Appendix 'A' to be included within the Council's Annual Statement of Accounts for 2015/16.

The final AGS will be signed by the Chief Executive and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to publish an AGS means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

Legal Implications

The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS). The best practice guidance is recognised as the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government (2007). The AGS is used by the Council to report publicly on the extent to which the Council has complied with its adopted Code, which is a requirement of the Accounts and Audit Regulations (England) 2015. However, as mentioned above, further guidance has been published and a revised code of corporate governance appears elsewhere on this agenda for the committee's consideration.

Financial Implications

Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Service/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Annual Governance Statement – Financial Year 2015/16

1. The Council's responsibilities

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, 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.

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.

In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number of actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

2. The purpose of the Governance Framework

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.

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.

3. Governance issues in 2014/15

In the light of the exceptional circumstances that had been reported over the previous two years, the Internal Audit Service had been unable to complete a risk-based programme of work sufficient to support an overall opinion on the Council's overall governance framework.

The Annual Report concluded that the level of assurance previously provided had gradually deteriorated and therefore only limited or no assurance had been provided over the majority of control systems audited during 2013/14. At Management Team's

request internal audit work during 2014/15 was therefore directed towards reassessing key areas of control weaknesses and follow up actions agreed by management to improve controls across a number of systems and services identified in previous years' reviews.

As a result of that work it was concluded that substantial assurance could be provided over the areas of high and medium risk. Substantial assurance was also provided over the Council's key financial systems and it was reported that there had been a robust improvement over areas such as information governance.

The External Auditor's Value for Money (VFM) conclusion contained in the Audit Findings Report for 2014/15 also identified a number of areas of concern which had resulted in a qualified opinion as follows:

- The Head of Internal Audit's inability to provide an overall opinion on the system of internal control for 2014/15;
- Procurement risks following the return of the Procurement Service from One Connect Limited, in particular the need to waive procurement rules to extend a number of existing contracts;
- The financial pressures facing the Council, in particular the risks around the delivery of savings necessary to meet a spending gap from 2016/17 to 2020/21

At their meeting held on 25 January the Committee received a report providing an update on the performance of the Procurement Service following its transfer back from One Connect Limited. The report set the progress made in implementing the procurement Service Improvement Plan and the Service's current performance against the key performance indicators aligned to the Procurement Strategy and was commended by the Committee.

In relation to both the financial pressures facing the Council and the absence of an overall Audit Opinion for 2015/16, both issues remain concerns and are commented on later in this report.

4. The Head of Internal Audit's report 2015/16

As the Internal Audit Report included on the agenda observes, in June 2015 the Audit and Governance Committee noted the Annual Report for the year ended 31 March 2015 which stated that during 2015/16 the Internal Audit Service would work to support management and in particular a number of members of the team will be seconded into the Finance service to provide extra, necessary capacity on key projects, therefore it would not undertake work that would support an overall opinion in 2015/16 but would, so far as resources allowed, provide consultancy support to services.

Subsequently, in January 2016, the Committee approved the Internal Audit Service Strategic Internal audit Plan 2015/16, 2016/17 and beyond, the report noting that the Service would not be in a position to complete a risk-based programme of work to support an overall opinion on the Council's framework of governance, risk management and control for 2015/16 but would focus its assurance work solely on the Council's centrally managed key financial systems.

The key financial systems are as follows:

- The general financial ledger;
- Cash and banking;

- Accounts payable system;
- Accounts receivable and debt management system;
- Payroll;
- Treasury management; and
- VAT

Work on the general financial ledger, accounts payable central system, payroll and VAT is complete with the remaining work scheduled to be undertaken after the end of the financial year.

All of the areas audited to date have been assessed as providing substantial assurance. The Report also identifies areas identified by Management Team where control improvements are intended to be made during 2016 and 2017.

5. Emerging governance issues in 2015/16

A number of risk areas emerged or came to prominence during 2015/16 including:

- The challenges associated with fully implementing the Councils medium term financial strategy and the longer term financial viability of the Council;
- Continuing to deliver organisational transformation. Phase 2 of the original transformation process has been stopped and an alternative base budget review process adopted;
- The delivery of a joint service between the Lancashire Pensions Fund and the London Pension Fund Authority.
- The Ofsted inspection judgement of "inadequate" in relation to Children's Services;
- The delivery of new waste management arrangements to achieve significant budget savings by introducing changes in operations and processes at the two recovery parks;
- Health and social care integration and the requirement to produce Sustainability and Transformation Plans by June 2016, to be fully implemented by 2018;
- Developing new model for public service delivery through the establishment of a combined authority for Lancashire and securing a devolution deal with central government and securing economic growth, of which public sector reform is one strand.
- The implementation of the Council's Property Strategy. Cabinet's proposals are currently the subject of a 12 week consultation which include the closure of a number of libraries and Children's Centres. Final decisions will be made by Cabinet in September

All of these risk areas have been the subject of detailed reports to Cabinet and/or other committees/Full Council.

The following sections comment in more detail on the issues identified above:

6. The Financial Viability of the Council

The Council's Risk and Opportunity Register identifies the risk to the ongoing longer-term financial viability of the County Council as one of its highest level risks. The Medium Term Financial Strategy (MTFS) presented to Cabinet on 21st January 2016 noted that there is a strong likelihood that the Council will, during the course of this financial strategy period (up to 2020/21) be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered. The assessment of statutory services followed a detailed base budget review undertaken earlier in the year.

The budget approved at Full Council was based upon £129m of savings being delivered in 2016/17 and 2017/18 and the use of c£117m of reserves to support the revenue budgets in these years. Despite this, there remains a funding gap of c£200m by 2020/21 reflecting reducing resources and increasing demand for services, particularly social care as a result of demographic changes including an increasingly ageing population and also the increased cost of commissioning and delivering those services, a financial pressure further impacted by the introduction of the National Living Wage from 1st April 2016 at £7.20 per hour and which will rise to at least £9 per hour in 2020. The additional financial pressures on Adult Social Care budgets are only partially mitigated by the ability to raise the 2% Adult Social Care Precept.

Budget reports to Cabinet during the year identified several strands to seeking to address the future financial challenge facing the County Council. This includes a continuous review of efficiency, with a Zero Based Budget Review being undertaken in 2016/17 of every service within the Council's current operating model to identify the potential for removing any non-essential expenditure. These reviews have reference to benchmark unit costs with the intention of moving towards the lowest quartile of the most appropriate comparator group.

The outcome of these reviews is unlikely to deliver a sustainable financial position in the medium term and therefore the November budget report identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed to assist the Council in scoping and undertaking the review of its operating model. It is anticipated that this review will be undertaken during 2016/17 with the key aspect being to enable the Council to be sustainable, within its forecast financial resource envelope, by 2020/21. This review is likely to involve looking at opportunities across all public services in Lancashire as the County Council is not alone in this financial challenge, with Health and Adult Social Care Services across Lancashire forecast to have a budget shortfall of over £800m by 2020/21.

Whilst the scale of the financial challenge is a hugely significant one, the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast earlier in the year. The Director of Financial Resources provides regular reports on budget and performance to Management Team and Cabinet and fundamental to this will be the delivery of approved savings plans which are subject to ongoing detailed scrutiny and monitoring.

7. Organisational Transformation

With effect from 1 April 2015 the transformation of the Council's senior management structure at grade 11 and above (Phase 1) is complete. Phase 2 of the transformation (all other grades of staff) was put on hold shortly after the completion of Phase 1 due to the increasing certainty of an even more severe financial position for the Council than had been previously forecast.

A revised transformation approach was established which incorporates a fundamental review of all Council services to determine which services will be provided in the future. Posts at all grades (including posts established as part of Phase 1) are being reviewed, and revised structures, on a service by service basis, are being developed, consulted on and implemented. This process commenced in 2015/16 and will continue in 2016/17, with a view to establishing a new operating model for the Council by April 2018.

The review of services referenced above commenced in the summer of 2015 with a base budget review of all County Council services. The review established which services the Council has to provide as a statutory minimum. A "legal challenge" test was applied to all services. The outcome of the review demonstrated at that point that by the end of the financial year 2017/18 the Council would not have sufficient funding to provide a minimum level of statutory service provision.

The next stage of the transformation approach is a zero based budget review exercise, which commenced in January 2016. This review will determine, for the services that the Council is still providing, the lowest achievable cost model, for a minimum level of service provision. The exercise will incorporate a benchmarking exercise and consideration of alternative service delivery models. The exercise will also determine minimum staffing level requirements and inform staffing structures, on a service by service basis. This will incorporate new management arrangements for each service.

This approach will ultimately result in the Council being significantly smaller and providing services in a very different way. The Council has recognised that it needs the support of external consultants to assist and advise on the reconfiguration of its major services and the establishment of its new operating model. External consultants were procured during 2015/16 to support the reconfiguration of adults' services and to undertake a diagnostic for children's services.

A separate procurement exercise has also been undertaken to establish a wider consultancy framework to allow the Council to call off external consultancy services as required during the zero base budget review exercise and wider transformation process.

Price Waterhouse Cooper have been appointed to this framework and Cabinet has agreed an initial brief for the review of the Council's business and operating model as well as agreeing to extend the remit of the Political Governance Working Group to include this review and to make recommendations to Full Council.

8. Establishment of Local Pensions Partnership Limited (LPPL)

At its meeting held on 24 March 2016, the Full Council approved recommendations (subject to a number of conditions precedent) from the Pension Fund Committee in relation to the creation of a partnership between the Lancashire Pension Fund (LPF) and the London Pension Fund Authority.

PricewaterhouseCoopers had advised on the viability of the financial model to be used by LPPL and confirmed the benefits likely to accrue to LPF in agreeing to enter into the joint venture. Uncertainties however remain in relation to the Government's wish to establish "Wealth Funds" which will require the pooling of existing pension funds with a value of not less than £25 billion.

At the time of writing the LPPL fund falls well short of this and the Government have indicated that they are not prepared in this case to make an exception for a smaller fund, therefore the final position for LPPL is unclear.

9. Ofsted Inspection of Children's Services

Ofsted carried out an unannounced inspection of Children's Services which commenced on 14 September 2015 which lasted for four weeks.

The inspection focused on the experiences and progress of children in need of help and protection, children looked after and care leavers. It also included looking at the effectiveness of the Council's services and arrangements to help these children, including adoption and fostering. Ofsted also carried out a review of the effectiveness of the Lancashire Safeguarding Children Board (LCSB) at the same time.

Ofsted published its report on Friday 27 November 2015 rating the overall effectiveness of the Children's Services as "inadequate". The judgement for the LCSB was "good".

Actions taken – March 2016

A number of actions have been put in place and developed since the outcome of the Ofsted inspection so that we can quickly improve services for children and young people and ensure that they are safe and protected. These include:

Director of Children's Services - Agreement has been reached between Lancashire County Council and Blackburn with Darwen Borough Council for BwD's Director of Children's Services to fulfil that role for both authorities, the arrangement being for an initial 6 month period. This arrangement began in February 2016 and ensures additional leadership capacity and extensive expertise around children's social care and the improvement agenda.

Child in Need Reviews - A concern raised by Ofsted was whether there was sufficient social work oversight over Child in Need cases and therefore a clear understanding of the levels of risk to children. In response, 2345 Child in Need cases have been being reviewed and, where necessary, appropriate levels of intervention are being put in place to ensure children are safe. Work is also underway to ensure that in future, there is an effective social care model that provides sufficient oversight to manage risk in child in need cases. Plans to revise the approach and structure of the Early Help and Wellbeing Service will also strengthen and support this new model for Children in Need.

Improvement Seminar - Ofsted facilitated an improvement seminar on the 13 January which was attended by senior colleagues from the County Council, representatives from partner organisations and also social care managers and frontline social workers.

The purpose of the seminar was to provide a comprehensive understanding of the inspection judgements and this is being used to help shape and inform the improvement plan. Whilst the focus of the seminar was the areas of improvement that need to be made a key message from the inspectors was that 'it is not all broken'. The new Children Services Scrutiny Committee (see below) will have a role in ensuring that these other areas of children's services do not "drift" or deteriorate particularly given that inspections of Youth Offending and Special Educational Needs and Disabilities services are expected in the near future.

Lancashire Children's Services Improvement Board - The Improvement Board has been established, which is usual practice following an 'inadequate' inspection judgement. The Board will be responsible for closely monitoring the development and delivery of an improvement plan which will be critical to achieving a much improved outcome when Ofsted carries out a further inspection in due course.

The independent chair of the Improvement Board has been appointed, being a specialist children's services improvement advisor for the Department for Education (DfE). He was previously the Director of Children's Services at Cheshire East Council and has more recently been working with Leicester City Council through their improvement journey as chair of their Improvement Board. As Chair he is responsible for reporting improvement progress to the Secretary of State.

Improvement Notice – The Independent Chair has undertaken a diagnostic aimed at establishing a detailed understanding of the capacity and capability of the Council's ability to improve children's services. The diagnostic was informed through interviews with managers and partners, focus groups with staff and analysis of performance information and existing policy, plans and strategy.

The diagnostic was reported in March directly to the Minister of State for Children and Families to inform the approach taken by the DfE and has resulted in the lowest level of intervention in the form of an improvement notice to the Council specifying the areas of concern, the level of improvement required and how progress will be assessed and reported.

Improvement Plan - An Improvement Plan has been developed, agreed by the Improvement Board and was submitted to the DfE on 4 March 2015. This Plan outlines in detail the activity and action that will be developed to make the improvements to children's services that are needed at the scale and pace that is required. The Improvement Plan responds to all the concerns that have been raised by Ofsted in their inspection report. The Improvement Board is responsible for the development of this Plan and for overseeing its implementation and impact.

Ofsted Improvement Offer - Ofsted have agreed that their follow up work will entail a quarterly, two day monitoring inspection for two inspectors commencing in September 2016, the outcomes of which will be fed back to the Council.

Children's Services Pathway Review - A team from Newton have completed work in developing an understanding of the effectiveness of the process, systems, structure and approach within children's services. Although the Newton work is not as a result of the Ofsted inspection, it will complement and inform the post inspection improvement plan and help to define and deliver changes over the coming months.

The initial findings of the review indicate that there are opportunities to improve the effectiveness of social care practice and increase the amount of time that Social Workers spend in direct contact with families.

Children's Services Scrutiny Committee – A new Children's Services Scrutiny Committee has been established which will operate in addition to existing committees and its remit will cover all issues relating to children and young people's services. Education matters will still be reserved for the Education Scrutiny Committee. Representatives, including five lay members, one from each of the local Children's Partnership Boards, have now been agreed and the Committee has had a briefing session so that members can better understand the key issues across children's services. The Committee has now agreed its work plan for the first six months, focussing on youth offending and Special Educational Needs and Disability (SEND) in view of forthcoming inspections.

Increasing Capacity – Additional management capacity has been redirected from existing resources into the districts to allow increased oversight of social work practice. There are two additional senior managers in North, East and Central Lancashire working with social care district managers.

Recruitment to posts in social services have ensured that structures are now at establishment levels and plans are being developed to further increase capacity both at practitioners and management levels.

External support has also been engaged for help in reviewing the child and family assessments of 720 child in need cases, an area of work specifically identified by Ofsted. Going forward a framework arrangement has been put in place to provide further external support.

There is weekly reporting and monitoring of children's social care vacancies and recruitment. A refresh of the recruitment and retention strategy is also being developed to enable a renewed and sustainable approach to ensuring appropriate staffing of children's social care both in terms of numbers but also in terms of experience and skills. This is in the context of a national shortage of trained social work staff which is reflected at a regional level.

Communication and engagement – Staff awareness and engagement in developing and delivering improvement activity will be key in ensuring progress is effective and sustainable. Regular communication and briefings are already in place and communications strategy and action plan have been developed to support the improvement process and activity.

Care Leavers – There is a need to improve the support to care leavers so that they are able to make the right choices and can access that support that they are entitled to. Guidance has been issued to all workers to raise awareness and understanding of the Leaving Care Regulations. Care Leavers have also received an information pack which details and explains their full entitlements. In addition, proposals are being developed to that will provide additional capacity so that care leavers can access the support they need. A mentoring Service for care leavers has also been launched.

Performance Management - Weekly reporting arrangements have been established and continue to focus on children's services staffing vacancies, the audits of all Child in Need, the timelessness and multi-agency engagement in section 47 strategy discussions and social worker caseload levels. Work is also underway to streamline the performance reporting approach and ensure that key measures have clear and robust targets set against them. This will include the development of a performance dashboard that will be used by the Improvement Board to monitor and challenge the progress being made in delivering help and protection to children and young people.

External expertise is also currently being agreed through the region and Ofsted to support the development of improvement performance reporting.

LiquidLogic Children's System (LCS) - A key area of concern raised by Ofsted was the ability to access timely and accurate information and data from LCS. Newton have been commissioned to lead a project to enhance the accuracy of the information held on LCS and provide confidence in this as the key system for providing performance information. This will be supported and informed by a completed health check where colleagues from LiquidLogic worked with practitioners and have produced a report that outlines amendments to the system that will streamline processes. Support is also being drawn from neighbouring authorities, learning from how they have implemented and use the LiquidLogic system.

Peer Challenge - A peer review has now been planned to take place during Autumn 2016 and an LGA peer review will be arranged in the coming months. This external scrutiny will be provide a level of assurance that improvement progress is being made.

10. Waste Management - GRLOL

In July 2014 the Cabinet authorised the termination of its waste PFI Contract. Under the termination arrangements the existing waste operating company, Global Renewables Lancashire Operations Limited (GRLOL), transferred to the ownership of the County Council in order to facilitate the necessary and continued provision of waste services.

The Company transfer took place on 31 July 2014 and since this date a new Board of Directors, consisting of elected Members, was appointed and revised Articles of Association for the Company adopted.

The County Council's budget decisions relating to GRLOL taken in November 2015 and subsequent requirements relating to residual waste processing significantly change the service which the Council requires the Company to provide.

On 11th April 2016 the GROL Board considered a report setting out proposals for a new company structure based on the revised service requirements and these proposals were subsequently approved by the Employment Committee on 18 April. In addition to the new permanent structure, a temporary structure necessary in the short term to protect and preserve the Company's physical assets has also been agreed to support the Company's transition.

The new structure agreed reduces the Company's staffing from 352 posts at a cost of £11,651,500 at the outset of 2015/16 to 62 posts with a forecast, full-year labour cost of £2,007,700.

11. Health and Social Care Integration

Since April 2015 the Council has been a partner organisation in the Better Care Fund planning and pooled budget arrangements with Clinical Commissioning Groups (CCG's). This involves a pooled budget of c£90m, hosted by the County Council, with the purpose of commissioning services more effectively for citizens and patients through better integrated health and social care systems to reduce demand on acute hospital and care home services particularly.

Building on this, every part of the NHS is required to have a locally led Sustainability and Transformation Plan (STP) in place by 2017 which should be implemented by 2020. This needs to be seen in the context of the substantial financial challenges for the health and social care system in Lancashire (including a forecast budget shortfall of at least £805m by 2020/21).

The plan is therefore required to cover better integration with Council services and reflect Health and Wellbeing strategies. The approach is backed by a dedicated Sustainability and Transformation Fund worth £2.1 billion nationally in 2016/17 and rising to £3.4 billion in 2020/21. The level of funding received will be dependent on the quality of the STP with the nature of local authority engagement seen as an indicator of quality.

The development of the STP, together with the ongoing considerations of options for integration and joint working (including potential for more extended pooled budget arrangements), will involve the development of new delivery models and ways of working to minimise the impact of funding reductions and provide a better offer for service users.

Cabinet has now agreed Operating Principles, which have been shared with partners, to enable the Council to participate effectively in the shaping of the STP process. The principles agreed cover the following areas:

- Governance – supporting a single pan-Lancashire Health and Wellbeing Board with the development of local Health and Wellbeing Partnerships covering the five local health economy footprints;
- Citizen-focused Integration – to provide joined-up and seamless services to citizens as the primary focus of health and social care integration;
- Local Health Economies – to support integration on the basis of the five local health economy footprints subject to a commitment to avoid duplication and to plan services on a pan-Lancashire footprint where this is the best fit model;
- Joint Strategic Needs Assessment (JSNA) – to support the development of the JSNA at a pan-Lancashire level, to support activities of the Health and

Wellbeing Board, and at a community level to support the commissioning of local services;

- Pooled Budgets – to ensure that the financial resources available for the provision of services are most effectively utilised;
- Single Commissioning arrangements – for those services covered by the pooled budget to drive the most cost-effective outcomes.

12.A Combined Authority for Lancashire

Local Authorities in Lancashire have continued to work together to develop proposals for a Combined Authority (CA). Fourteen authorities in Lancashire, including Lancashire County Council, made a decision at their full council meetings in November/December 2015, based on a full governance review and outline proposals on future governance, to progress with discussions on arrangements for a potential CA.

Significant work has gone into developing the governance structure, and a cross-authority working group was formed in February 2016 to develop a new constitution for the CA. Agreement has already been gained from all participating authorities on Overview and Scrutiny arrangements, and the outline arrangements, including structure and voting rights. This includes provisions for unanimous voting on key elements, such as finance.

At meetings held in March/April 2016 all fourteen councils agreed to become constituent Members of a Lancashire CA and to submit proposals to do so to the Secretary of State, with the CA commencing in shadow form with effect from 11 July 2016.

Future proposals for a devolution deal with Government will be considered by all Constituent Members of the CA in due course.

13. Implementation of the Council's Property Strategy

A key element in the delivery of continuing Council services is the property portfolio from which services can be directly accessed by citizens or from which the Council's employees can deliver outreach services into the community.

The Council's property portfolio (excluding schools) comprises in the order of 500 operational sites. As part of the approved Property Strategy a total of 222 premises have been identified as part of the review, excluding those which are clearly unsuitable for front facing service delivery.

The proposals have been developed around the Neighbourhood Centre model approved in November 2015 and are designed to ensure that all Lancashire's residents can continue to be provided with high quality services from a reduced number of properties.

The proposals are designed to provide a flexible response to future patterns of service delivery and take account of:

- Data analysis based on a weighting and scoring methodology previously agreed by Cabinet;
- Dialogue with elected members and partners;

- Consideration of how the proposals align with service delivery strategies and the delivery of approved budget options

Cabinet has now approved the proposals for the purposes of a 12 week public consultation, the outcomes to be considered by Cabinet in September when final decisions will be made.

14. Other Sources of Assurance

Understanding the nature and scale of the risks facing **adult social care** in Lancashire is important for the Council and all its public sector partners and citizens. To help frame a systematic and comprehensive understanding of these risks a framework has been developed under the auspices of the Local Government Association (LGA) and the Association of Directors of Adult Social Services (ADASS) which Directors of Adult Social Care have been encouraged to use.

This risk assessment tool has been completed for Lancashire in November 2015 using the data available at the time. The top five risks (as well as the full completed risk awareness tool) were reported to CCPI at its meeting held on 8 June 2016. The report to CCPI highlighted the top five risks and sought endorsement of the high level plans proposed to mitigate the risks.

The top five risks identified and some of the key mitigations are as follows:

- Finance/Budget Savings – there is a challenging target of £37M to save over the financial years 2016/17 and 2017/18 with potentially further savings to be made in subsequent years.

Mitigations include the commissioning of Newton Europe to support savings plans; to increase income via the Better Care Fund and/or social care precept; lobbying of Government about funding levels in association with partners such as LGA, ADASS and CNN.

- Market Sustainability/Quality – only 68% of registered services are judged as Good or Outstanding. Good quality services are becoming increasingly unaffordable. Recruitment and retention is becoming an issue for providers and compliance with employment legislation increasing staffing costs.

Mitigations include fresh consideration of commissioning options around home care, reablement, learning disability and mental health. Significant fee uplifts have been agreed for residential and nursing home care for older people to reflect sector pressures along with an increase in rates to address the pressures resulting from employment legislation

- Transforming Care – this national programme to end the use of inpatient beds for adults with learning disabilities poses particular challenges for Lancashire given the planned closure of Calderstones.

Funding for individuals who move into the community during 2016/17 will come from the NHS from transitional funding. Both the Department of Health and NHS England are being lobbied to ensure that they understand the particular pressures facing Lancashire.

- Performance/Systems Development – whilst there is a general picture of improvement, concerns remain around the inability to report accurately on the number of people awaiting assessment, and the focus on retrospective analysis does not provide the information to enable staff to work proactively and manage their work.

Improvement plans for Liquid Logic are underway along with a review of metrics. This work will be supported by Newton Europe, including the use of local performance dashboards.

- Waiting Times for Assessments and Reviews – These are significant in some areas including occupational therapy, safeguarding and social care reviews, leading to increased risk to individuals and increased cost to the Council.

Additional capacity is being secured in key areas of social work with clear triaging/prioritisation schemes in customer access. Providers are undertaking safeguarding work in residential and supported living schemes and work with Newton Europe is underway to improve productivity.

In relation to **Special Educational Needs and Disability (SEND)**, Ofsted and the Care Quality Commission will begin to inspect local areas on the implementation of the SEND reforms from May 2016.

The Council therefore needs to have a clear view of areas of strength and for development and therefore a self-evaluation framework has been completed. The risks identified through the self-assessment are as follows:

- Whilst SEND data is largely accurate, the lack of an appropriate secure IT platform is a risk although this can be achieved through the implementation of the Liquid Logic early help module;
- The recruitment and retention of education psychologists and workloads for SENDOs remain a concern although Management Team have now approved the recruitment of additional SENDOs and an approach has been made to the Association of Educational Psychologists to resolve existing difficulties;
- Commissioned arrangements with Health are inconsistent across the six CCGs in relation to designated medical officers and the current arrangements are therefore being reviewed;
- The current position on the transfer of statements of special educational needs to Education Health and Care Plans is continuing and, whilst the volume of statements transferred out of a total of c.6,500 are positive, there may be issues around the quality of plans.

In addition to specific mitigations, alongside the introduction of the self-assessment framework arrangements have been put in place for peer support via a regional arrangement in the North West. Dip-sampling of case files is also in place with a neighbouring local authority.

The Council's Finance Service has recently been through an LGA Peer Review process, the outcomes of which are in the process of being finalised.

15. The Council's Governance Framework

The Council's Governance Framework comprises many systems and processes. The following identifies key elements of the Governance Framework and the council's arrangements for fulfilling them:

Identifying and communicating the council's vision of its purpose and intended outcomes for citizens and service users

Work to develop the corporate strategy has been on-going, with a stakeholder consultation during August and September 2015, culminating in Full Council considering the core of the new Strategy on 17th December 2015.

The draft strategy sets out the proposed future direction for the Council and framework including:

- our vision, values, high level priorities and overall approach
- our evidence base
- thematic strategies, such as our financial strategy
- our risk, quality and performance framework
- service delivery plans
- annual budgets.

The core strategy document provides the starting point for that framework, setting out the core purpose, vision, values, approach and evidence base which we will be used to inform and guide what we do and as a reference point for the further prioritisation of our financial resources.

The updated corporate strategy was approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration

Importantly, the Council's core purpose has now been agreed; to work for the people of Lancashire to enable them to:

- live a healthy life;
- live in decent home in a good environment; and
- have employment that provides an income that allows full participation in society.

Reviewing the council's vision and its implications for the Council's governance arrangements

To measure the effectiveness and delivery of the Council's ambitions, the Council's Cabinet Committee on Performance Improvement (CCPI) regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, by the Chief Executive and directors.

Through the development of the corporate strategy framework and continued development of the approach to service delivery in communities, performance

measures are being updated where appropriate, to ensure that the Council manages performance in the context of reduced resources and refreshed priorities.

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.

Translating the vision into objectives for the Council and its partnerships

In December 2015 Full Council agreed the core vision, values, strategic outcomes and priorities within the draft corporate strategy, set out in the following Table:

<p style="text-align: center;">Our core purpose</p> <p style="text-align: center;">Is to work for the people of Lancashire to enable them to:</p> <ul style="list-style-type: none">• live a healthy life• live in a decent home in a good environment• have employment that provides an income that allows full participation in society. <p style="text-align: center;">Our vision</p> <p style="text-align: center;">Is that every child born today in Lancashire, and every citizen will grow up and live in a community and an environment that enables them to live healthier for longer, have a job when they leave education and achieve their full potential throughout life.</p> <p style="text-align: center;">Our values</p> <p style="text-align: center;">To be Fair, Trustworthy, Ambitious and to have Belief in People.</p> <p style="text-align: center;">Our approach</p> <p style="text-align: center;">Achieving this vision will be the lifelong journey, which we describe in terms of Starting Well, Living Well and Ageing Well.</p> <p style="text-align: center;">A child born in Lancashire today has the potential to live for over 100 years. Whilst our strategy looks up to twenty years ahead, every year we will have citizens aged from 0 to over 100. We will work for all of them to do all we can within our resources to achieve our vision.</p> <p style="text-align: center;">Our evidence base</p> <p style="text-align: center;">We will provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.</p>

Strategic outcome	Strategic outcome	Strategic outcome
<p><i>To live a healthy life</i></p> <p>Increase the time that people in Lancashire can expect to live in good health</p> <p>Narrow the gap in people's health and wellbeing between different parts of the county</p> <p>Enable people to make healthy lifestyle choices</p>	<p><i>To live in a decent home in a good environment</i></p> <p>An adequate supply of affordable quality housing to rent or buy that meets the needs of all our citizens</p> <p>Good quality local neighbourhoods with adequate parks, open spaces, social, cultural and sporting opportunities</p> <p>Communities where families and individuals feel safe</p> <p>A high quality natural environment</p>	<p><i>To have employment that provides an income that allows full participation in society</i></p> <p>Rebalance Lancashire's economy to reduce its over-reliance on low paid employment.</p> <p>Increase the employability of Lancashire's citizens</p> <p>Focus on communities where there are high concentrations of unemployment and low paid employment</p>

Alongside this, the Council agreed 28 overarching priorities, to provide a focus for service delivery, either by the Council directly or through our influence with communities and our partners.

The strategy, supporting evidence base and changes agreed by Council in December have been published on the Council's website, are being used to inform the development of our approach to service delivery and to ensure that we provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.

Measuring the quality of services for users, ensuring that they are delivered in accordance with the council's objectives and ensuring that they represent the best use of resources and value for money

- 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;
- Consulting on changes we are planning to make, for example in relation to the implementation of the Council's Property Strategy;
- Quality of Service Reports presented to CCPI

Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the council and partnership arrangements

Decision-making and conduct

The Council operates a leader and cabinet model of executive government with a Cabinet of seven members including the Leader and Deputy Leader of the Council. A cross party "political governance working group" continues to meet to oversee governance and constitutional issues, such as developments relating to the Combined Authority proposals.

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 was reviewed, and a new scheme introduced from 1 April 2015. The new scheme empowers heads of service in the new organisational structure to take all decisions within their area of responsibility, except for those reserved to Cabinet or cabinet members or committees.

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 embedded to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.

Scrutiny

The Council created an additional scrutiny committee in 2015/16, taking the total number to five:

- The Scrutiny Committee, whose responsibilities include the Council's crime and disorder and flood risk management scrutiny responsibilities.
- 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.
- A Children's Services Scrutiny Committee was created in December 2015 to oversee services for children, in response to the Ofsted inspection outcomes.

Partnership arrangements

The Council recognises the substantial benefits of developing and delivering services in collaboration with other organisations, providing an integrated approach to service provision that is cost effective and maximises impact for people living in Lancashire. The Council plays a key role, either as a statutory lead, or significant partner, in facilitating wider engagement in decisions and developments to align budgets, capacity and expertise and agree shared priorities.

This approach is embedded in a range of formal partnership structures that drive and support ambitious priorities whilst recognising existing and future key challenges, building upon a strong track record in Lancashire that has been recognised by numerous inspectorates, for collaboration and partnership working.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.

The Code of Conduct for Elected 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.

Following that review complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee.

The Council has a Code of Conduct for employees and a system for recording officer gifts, hospitality and interests, which has recently been reviewed and updated. Councillors and staff are reminded of their requirements on a regular basis. The Council also has a protocol for councillor/officer relations.

Reviewing the effectiveness of the Council's decision making framework including delegation arrangements, decision making in partnerships and robustness of data quality

The Council has embedded a revised scheme of delegation, commenced in April 2015, and has created a new scrutiny committee to respond to issues identified within children's services following an Ofsted inspection. The Council is a member of a cross-authority working group looking at the development of a new constitution for a proposed Combined Authority. The Political Governance Working Group continues to meet as required.

In 2015/16 County Council officer support for Lancashire Health and Wellbeing Board, Lancashire Community Safety Strategy Group, Children's Trust Board and the Lancashire Partnership for Road Safety, was brought together under the Health Equity and Partnerships team. This has enabled the links between partnerships to be further strengthened and strategic priorities to be aligned. The Children's Trust Board continue to lead on the Start Well strand of the Health and Wellbeing Board Strategy.

Changes have been made to the membership of the Health and Wellbeing Board, to strengthen links with area Health and Wellbeing Partnerships. The Board has reviewed its actions with partners to support changes to the health and social care plans. The Lancashire Community Safety Group is reviewing the Lancashire Community Safety Agreement to set out how we will work together with partners to address community safety priorities for Lancashire in 2016/17. The Children's Trust Board is working through the streamlined partnership arrangements put into place in the 2013/14 partnership review, to join up work that brings together initiatives that support better outcomes for young people and families.

The above Partnerships will continue to review their structures to ensure a model that is fit for purpose, sustainable and allows multi agency decision making that improves outcomes for people.

The Council continues to work with partner agencies to make a real impact for local communities. This includes delivering specific projects/services with the other local authorities in Lancashire and other public, private and voluntary sector partners.

The robustness of data quality

The Council understands that good quality data is important to ensure accurate reporting of performance to the public and is the basis for effective decision making. Maintaining data that is fit for purpose is an integral part of operational, performance management, and governance arrangements.

The Council follows good practice guidance issued by the Information Commissioner's Office and general data quality standards, ensuring that information is accurate, valid, reliable, timely, relevant, complete and secure. Data quality advice is included in the Council's Information Governance annual eLearning course and there are specific bite sized briefings available for all data users regarding data quality. A member of staff within every Council service is nominated as an information governance champion and they sign an annual commitment on behalf of their service to ensure the robustness of data quality within their service.

However, it is clear from the recent Ofsted Report in relation to Children's Services that data quality is often not fit for purpose, or there is a lack of confidence in it which brings into question its use for decision-making.

To address these issues Management Team have put in place "Project Accuracy" with the objective of improving the quality of data in LCS in order to increase the efficiency of the system and enable social workers to spend more time with children and families. Seven priority areas have been identified for Wave 1 of the project:

- Team structures
- Caseloads
- S47s and strategy discussions
- Referrals per week
- C&Fs due and overdue
- Visits due and overdue
- Reviews due and overdue

Project Accuracy was launched on 4th April with briefings in Lancaster, Fleetwood, Burnley and Preston to all children's social care practitioners and managers. The initial phase of ensuring that team hierarchies are all up to date and accurate is well underway.

This project includes a tightly managed programme of work involving the generation of weekly reports, short weekly improvement meetings held by the area teams, and a senior management led weekly steering group. Newton Europe have facilitated the project. By 20th May, 82% of team structures were correct which is a huge improvement on the initial 33%. This provides a key fundamental building block to enable all the priority reports to be assessed for accuracy and swift progress is anticipated in resolving issues relating to the other priority areas. Importantly, robust processes are now in place to sustain the accurate recording of team hierarchies.

The lessons learnt from the improvement of LCS will then also be applied to data quality in relation to adult social care and other services.

Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

A Risk and Opportunity Register has been developed by Management Team and relevant directors/heads of service, providing a brief, high level description of risks and opportunities along with the current controls and further proposed mitigating actions. The Register also includes "risk scores" for both before and after the application of mitigating actions based on a scoring matrix.

A corporate approach to reporting on risk and opportunity has been agreed. Risk and Opportunity reports will be provided to Management Team on a quarterly basis, following which the reports would then go to the Cabinet Committee for Performance Improvement and then to the Audit and Governance. The first quarterly reports have been presented to both committees and an indicative timetable for the next twelve months has been agreed.

At its meeting on the 25th January 2016, members of the Audit and Governance Committee received training on risk management and a programme of training is being delivered for Risk Champions within service areas.

A Risk Management intranet site has been developed and a handbook for staff and councillors has been produced setting out the adopted approach.

Risks and opportunities will also be incorporated into Quality of Service and Highlight reports.

At its meeting on the 25th January 2016, the Audit and Governance Committee, approved an Internal Audit Plan for 2016/17. The report noted that the processes supporting the Risk and Opportunity Register are still being developed to ensure that the register is robust and sustainable and to ensure that the register is an adequate reflection of the Council's most significant risks being addressed at a given point in time.

In due course this will serve as an active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and therefore not yet under effective control. The Internal Audit Plan itself includes the preparation and use of the Risk and Opportunity Register as a key component of an overall assurance opinion.

The report also noted that the Risk and Opportunity Register is relevant to the draft Audit Plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the Council's most significant risks and the progress being made in their implementation. Where risks have been mitigated, or are believed to have been so, they may not then be recorded in the Risk and Opportunity Register and must then be identified through other means.

Where management understands controls to be in place around significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are adequately designed and operating effectively

Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

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.

The Council has adopted a response appropriate to the fraud and corruption risk it faces in line with the CIPFA Code of Practice – Managing the Risk of Fraud and Corruption.

The Council's existing counter fraud strategy which has been in place for a number of years has recently been reviewed and an amended strategy and policy were approved by the Employment Committee on 16 May 2016. A Pension Forfeiture Strategy has also been approved which enable the Council to recover money owing as a result of misconduct, or criminal, negligent or fraudulent acts or omissions, from pension benefits.

Ensuring effective management of change and transformation

As part of its Transformation Programme, the Council has strengthened its arrangements for managing change and transformation. This includes creating a new Programme Office to provide project and programme management capacity and capability for the organisation, and a new Business Change & Transformation Team to provide change management support to services in delivering business change. Recognising change activity, and providing resources to deliver that activity separately to business-as-usual activity, has improved the management of change.

The Programme Office is now co-ordinating the delivery of all the change activity required to deliver the Council's current budget savings, and preparing regular reports to the Council's Management Team, who are providing clear leadership and governance of the changes. This ensures that change activity is aligned to the corporate strategy and financial plan. Management Team also continue to act as the Programme Board for the Council's Transformation Programme.

Change activity is now organised as projects and programmes within clusters, or portfolios, of change, and governance arrangements are in place that involve key stakeholders and decision-makers effectively. This has also improved the way that risks and issues are identified and managed, with significant risks linking through to the corporate risk and opportunity register.

These arrangements should be further strengthened through the introduction of a corporate project and programme management ICT system during 2016/17, which will help support the further standardisation of the Council's approach to managing change and improve the quality of reporting on change activity.

Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010)

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). An Interim Director of Financial Resources was in post for much of 2015/16 with a permanent appointment being made in February 2016.

The 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 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.

Ensuring the Council's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)

The Council's Internal Audit Service operates in accordance with professional standards. Management Team have identified that the current Internal Audit Service lacks sufficient capacity for an organisation of the Council's size and has therefore agreed a revised staffing structure which increases the Service's capacity which will deliver a sufficient breadth of audit work for 2016/17 for there to be an overall opinion.

Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Council's monitoring officer is the Director of Governance, Finance and Public Services. He has appointed a deputy monitoring officer (the Director of Legal and Democratic Services).

Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Council has appointed the Chief Executive as head of the paid service.

Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities

The Council has an Audit and Governance Committee which operates in accordance with the CIPFA Statement. The Committee's role is to provide independent oversight of the adequacy of the Council's governance and internal control frameworks, and oversee the financial reporting process, and it will also have a key role in relation to new arrangements for the oversight of risk management.

The Audit and Governance Committee in approving an Internal Audit Plan for 2016/17 and beyond agreed to an assessment of the constitution and operation of the Committee against professional practice and current best practice. The assessment will therefore form part of the Head of Internal Audit's overall opinion for 2016/17 which will be reported to Committee in 2017.

However, as it is intended to complete this part of the audit plan as a priority it is intended to bring an update report to the Committee as soon as the work is complete.

Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

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.

Whistleblowing and for receiving and investigating complaints from the public

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.

Receiving and investigating complaints from the public

The Council has robust arrangements for processing all complaints. These arrangements were revised during 15/16 bringing together all the complaints functions under the management of one team. The Complaints Team now manages statutory procedures for adults' and children's social care complaints as well as the non-statutory corporate complaints process to facilitate a strategic overview of complaints within Legal and Democratic Services.

Complaints are now reported upon every quarter and the Council produces a public statutory annual report for complaints and customer feedback and learning from complaints, which is reported to CCPI. The team also produces quarterly complaint reports which are shared with Heads of Service who act as Designed Complaints officers for their area of service. This information is reported on and taken to the senior management team in the form of Quality of Service Reports.

During 2015/16, a total of 1542 complaints were made about Council services. There has been a significant increase in the number of corporate complaints which are primarily about highway related issues although the increase reflects, at least in part, to more robust reporting processes including improvements in the Council's website.

The number of statutory complaints in relation to both adult and children's services have also increased. Adults' complaints have related primarily to assessments, financial issues (and charging) and domiciliary/home care provision. Children's complaints have related mainly to assessments, safeguarding/child protection processes and financial issues.

The Annual Report in relation to complaints and customer feedback is currently being prepared and will be reported to CCPI in September/October 2016 which will include improvements that have been made as a result of complaints.

Identifying the development needs of members and senior officers in relation to their strategic roles supported by appropriate training

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. A comprehensive member development programme was undertaken during 2014/15. An Induction working Group has been established in February 2016 to consider the needs of county councillors in the run up to and following the next County Council elections in 2017.

A comprehensive range of learning and development opportunities have been provided during including intranet based tools; numerous training courses; and a series of staff briefing sessions to assist and support staff through the Council's Transformation process.

All senior officers appointed to the new organisation structure are participating in a new Senior Leadership Development Programme designed to create a supportive and respectfully challenging thinking environment that enables leaders in setting a vision, engaging our employees and ensuring the council delivers high quality services for the people of Lancashire. Additional training needs will be identified through a corporate performance and development review process.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Council uses a number of main channels to communicate with the community and other stakeholders including:

- The website www.lancashire.gov.uk, which is our most used channel and received more than 4.2m unique visitors in 2014/15
- Local newspapers, magazines and newsletters
- Local radio and television
- Social media, particularly Facebook and twitter
- A variety of public information leaflets and other literature distributed to public places across the county

Enhancing the accountability for service delivery and effectiveness of other public service providers

Overview and Scrutiny has engaged with the NHS, Police and other public sector partners to hold them to account through formal meetings and through informal engagement arrangements. Work was undertaken in the year through Overview and Scrutiny to look at planning functions and joint working between the Council and its district partners, as well as undertaking significant work with utility providers and those organisations involved in flood risk management. The Council also currently hosts the statutory "Healthwatch" organisation.

The Council has strong relationships with district and parish councils, and works collaboratively with them. The work with other authorities on Combined Authority proposals has emphasised the importance of accountability and effective governance.

Incorporating good governance arrangements in respect of partnerships and other joint working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the council's overall governance arrangements

The 2013/14 review of partnerships has ensured a model of strategic partnerships that have a far greater synergy across key corporate priorities and improved the clarity of purpose and accountabilities that exists across partnership structures. The formal working protocols that have been agreed between the Children's Trust, Health and Wellbeing Board and Lancashire Safeguarding Children Board demonstrate this commitment and endorsement of better governance and accountabilities between partnerships. A LGA Health and Wellbeing Peer Challenge will take place during 2015 as part of an ongoing Improvement Programme.

County Council scrutiny committees have continued to conduct scrutiny of external bodies and partners, including the Health services and the Police service.

Internal control

The External Auditor's VFM conclusion for 2014/15 identified the lack of an overall opinion on the system of internal control as one of the areas of concern that resulted in a qualified opinion. Similarly, as it is not intended that there will be an overall opinion for 2015/16, it must be expected that the VFM conclusion for 2015/16 will again be qualified.

However, going forward the External Auditor has noted that there is now an Audit Plan in place for 2016/17 which identifies key areas of audit coverage, and that if this plan is refined and delivered as expected, then it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.

Management Team have given an unequivocal assurance that sufficient audit work will be undertaken during 2016/17 to ensure that this is the case and have approved a new staffing structure for Internal Audit which increases the current capacity of the service. They have also agreed to bring in additional, external resources on a temporary basis to undertake work which forms part of the Audit Plan if this is necessary in the short term, pending appointments being made to the permanent staffing structure.

Key issues for 2016/17

Financial Viability

As noted in section 6 above, the MTFs presented to Cabinet in January 2016 noted the strong likelihood that the Council will, during the period up to 2020/21 be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered.

The review of the Council's operating and business model being undertaken in conjunction with PwC and the Political Governance Working Group is therefore key to address the funding gap currently estimated to be £196.6 million by 2020/21. Any under-delivery of the savings currently built into the Council's budget will increase this gap still further.

Similar challenges also face other parts of the public sector within Lancashire which give rise to fundamental questions as to the nature, scale and sustainability of public services, in particular Health Service organisations, circumstances which form the backdrop to health and social care integration. What is clear is that in this context the Council cannot plan its future in isolation and must develop a public service model for Lancashire in conjunction with its partners.

It is particularly important that the Council positions itself well to feed into the Government review of its plans to end the rate support grant and allow 100% retention of business rates. To that end part of PwC's brief as approved by Cabinet is to prepare a report for submission to the Secretary of State for Communities and Local Government and the Treasury on the Council's funding base in relation to its statutory obligations and the resources needed to sustain a minimum level of statutory public services in the County.

Children's Services – delivering the Improvement Plan

The delivery of the Council's Improvement Plan prepared in response to the Ofsted judgement in relation to Children's Services as "inadequate" will also continue to be a focus and a key priority for resources to ensure that the Improvement Plan is delivered and that children are not put at risk of harm.

ICT Strategy and systems development

The Council is at various stages in the implementation of 4 key systems that will be implemented during 2016/17. Once fully implemented these will complete the Council's core systems transformation programme and will ensure that small, standalone systems are reduced significantly and that the Council can further develop its ambitions, i.e. for having integrated systems that allow one source of data to be used by different systems and for fully integrated and efficient end to end processes that reduce cost.

The key systems that will be implemented during 2016/17 are the Property Asset Management System and the Project Management System, both of which will go live in June 2016. The Highways Asset Management System is scheduled to go live later in the year, after which the decommissioning strategy for over 20 legacy systems will be implemented. The Customer Access Service replacement platform is due to be fully implemented in July 2016 and will replace the existing platform which, due to its age and other factors, has been a risk to the Council.

Roadmaps for all other systems are currently being developed together with resource, funding and implementation plans which will help ensure that the needs of services are identified, planned and co-ordinated so that they can be implemented in a safe way across the council. As part of this work, a roadmap for systems that supports the wider health integration agenda, as well as that with other partners, is also being developed. It should be noted that this work incorporates Project Accuracy and other workstreams that have been set up in response to recent inspections. Additional capacity to support our systems is also being built in to the corporate structure.

The Council's 'Digital By Default' strategy will be produced and finalised in the Autumn and will focus on key digital ambitions that will streamline process, improve the customer journey, reduce cost and duplication and provide access to services to citizens in a way that meets their needs. This strategy will also focus on how the

Council can maximise the benefits and cost reduction following the implementation of its core systems. Some of this work has already commenced and has been tested successfully on a pilot basis with a number of social work teams. A more extensive roll out plan will be implemented during 2016/17.

Sustainability and Transformation Plan

The structural complexity of the pan-Lancashire health and social care economy – CCGs, acute trusts and upper tier local authorities – create inevitable tensions and difficulties in designing and agreeing an integrated system.

The importance of this work, supported by Healthier Lancashire, cannot however be over-stated, with a clear government requirement to agree and submit an STP which, if approved, will initially draw down significant transformation funding, setting the blueprint for integration.

Report to the Audit and Governance Committee

Meeting to be held on 30th June 2016

Electoral Division affected: None

Risk and Opportunity Register

(Appendix "A" refers)

Contact for further information:

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Executive Summary

Earlier this year the Audit and Governance Committee agreed a corporate approach to Risk & Opportunity Management as recommended by Management Team. This was subsequently agreed by the Cabinet Committee on Performance Improvement. The key aspects of the approach include:

- The development of a Corporate Risk and Opportunity Register
- A quarterly reporting timetable to Management Team, the Cabinet Committee on Performance Improvement and the Audit and Governance Committee
- The development of a Risk and Opportunity intranet site
- The identification of Risk Champions within service areas
- A training/briefing programme for Risk Champions and Members
- The inclusion of Risks and Opportunities in Quality of Service and Highlight reports.

This report provides an update on the Risk and Opportunity framework and presents at Appendix A an updated Risk and Opportunity Register for the Committee to consider and comment upon.

Recommendation

1. The Committee are asked to comment on the updated Risk and Opportunity Register at Appendix A.

Background and Advice

At its meeting held on 30 June 2015 the Audit and Governance Committee approved the Council's Annual Governance Statement (AGS) for 2014/15. The AGS noted a

number of emerging governance issues including the need to embed a systemic approach to identifying and managing strategic risks and opportunities.

In response to this, a Risk & Opportunity Register has been developed by Management Team and relevant directors/heads of service, providing a brief, high level description of risks and opportunities along with the current controls and further proposed mitigating actions. The Register also includes "risk scores" for both before and after the application of mitigating actions based on a scoring matrix. The first draft of the register was presented to the Audit and Governance Committee on 25th January 2016 and the Cabinet Committee on 7th March 2016.

The corporate approach to reporting on risk and opportunity was also agreed which will involve Risk and Opportunity reports being provided to Management Team on a quarterly basis, following which the reports will then go to the Cabinet Committee for Performance Improvement and then to the Audit and Governance Committee.

An updated Risk and Opportunity Register for quarter 1 is attached at Appendix A and the Committee is asked to comment upon it.

The key highlights in the register include:

- allowing for mitigating actions, the residual risk score for the following entries remains 12 or above so the issue remains on the register:

Risk Identification Number (RIN)	Risk Description
CR1	Failure to implement the Council's MTFS. Further mitigating actions added but residual risk score remains unchanged.
CR2	Risk to the on-going financial viability of the Council. Further mitigating actions added but residual risk score remains unchanged.
CR4	Delivering Organisational Transformation. Residual score reassessed and increased to 12.
CR5	Inability to adequately protect and safeguard children. Further mitigating actions added
CR6	Failure to comply with statutory requirements and duties relating to Children Looked After, children in need and children leaving care. Further mitigating actions added.
CR7	Failure to recruit and retain experienced staff within Children's Services. Further mitigating actions added and risk scores reassessed.
CR8	Reputational damage and risk of direct intervention by DFE. Further mitigating actions added and the risk score reassessed.
CR12	Inability to implement/maintain systems that produce effective management information. Further mitigating actions added but residual score reassessed and increased to 12.
CR15	Delivering new waste management arrangements – Budget Option Proposal (BOP) 046 and Global Renewables Lancashire Operations Ltd transformation. This entry has been re-worded, mitigating actions added and the residual score increased to 12
CR16	Management of the Council's assets. This entry has been reassessed and the residual score increased to 12.
CR20	Transforming care (Winterbourne). Residual score remains at 12.

CR21	Service user/customer risk associated with the inability to influence behaviour change in demand and expectations continue to rise. Residual score remains at 12.
CO1	Developing a new model for public service delivery in Lancashire. Further maximising actions added and scores reassessed.
CO2	Delivering economic growth. Scores reassessed to increase after maximising actions
CO3	Opportunities through delivering the corporate strategy and property strategy. Scores corrected to increase after maximising actions.
CO4	Health & Social Care Integration. Further maximising actions added and scores corrected to increase after maximising actions

- there have been 3 new entries onto the register that focus on:

Risk Identification Number (RIN)	Risk Description
CR24	Failure to achieve targets with National Troubled Families Unit.
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities
CR26	Proposed museums closures

- The following entries have been removed from the corporate risk register because the mitigating actions have reduced the residual risk score to below 12. However, the risks will remain on service risk registers. These are:

Risk Identification Number (RIN)	Risk Description
CR3	Failure to deliver joint service between Lancashire Pension Fund and London Pension Fund Authority, due to inability to agree terms resulting in some abortive costs, and the non-delivery of a flagship project within the Local Government Pension Scheme reform agenda.
CR9	Failure to respond effectively to a major civil emergency and play our part in the strategic coordination.
CR10	Failure to manage debt recovery
CR11	Non-compliance with EU procurement law and the Council's procurement rules.
CR13	The provision of robust Information Governance arrangements.
CR14	The provision of effective Corporate Governance arrangements.
CR17	Failure to provide customer access to all Council services
CR18	Non-compliance with statutory responsibilities of safeguarding, resulting in adults with care and support needs being put at risk of abuse or neglect.
CR19	Failure to manage residential and nursing care market in Lancashire
CR22	The provision of a Coroners Service.
CR23	Failure to maintain adequate financial resources to be able to fund self-insured losses as and when they arise.

At its meeting on the 25th January 2016, members of the Audit and Governance Committee received training on risk management and Cabinet Members have also received a briefing. A programme of training has been delivered to Management Teams, Heads of Service and Risk Champions, where officers have been briefed on the approach and their roles and responsibilities.

A Risk Management intranet site has been developed and a handbook for staff and councillors has been produced setting out the adopted approach. Risks and opportunities have also be incorporated into Quality of Service and Highlight reports.

The Internal Audit Plan for 2016/17 approved by the Audit and Governance Committee noted that the processes supporting the Risk and Opportunity Register are still being developed to ensure that the register is robust and sustainable and to ensure that the register is an adequate reflection of the Council's most significant risks being addressed at a given point in time. In due course this will serve as an active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and therefore not yet under effective control. The Internal Audit Plan itself includes the preparation and use of the Risk and Opportunity Register as a key component of an overall assurance opinion.

The report also noted that the Risk and Opportunity Register is relevant to the Audit Plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the Council's most significant risks and the progress being made in their implementation. Where risks have been mitigated, or are believed to have been so, they may not then be recorded in the Risk and Opportunity Register and must then be identified through other means.

Where management understands controls to be in place around significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are adequately designed and operating effectively.

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables a local authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. A local authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a Corporate Risk & Opportunity Register means the Council would be failing to adequately discharge in its responsibilities for ensuring accountability and the proper conduct of public business.

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

Paper	Date	Contact/Tel
Report to the Audit and Governance Committee on the Risk and Opportunity	25 th January 2016	Cath Rawcliffe 533380

Reason for inclusion in Part II, if appropriate

N/a

Appendix A: Corporate Risk & Opportunity Register May 2016

Risk Identification Number (RIN)	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	Failure to implement fully the councils medium term financial strategy including the delivery of planned budget reductions	Economic	Financial Savings not achieved resulting in in-year overspends with pressure on following year budget and reserves depleted more quickly than planned. Reductions in service and/or drop in quality of delivery leading to JR and damage to Council's reputation. New legislative requirements not being met and uncertainty over being able to deliver and/or implement future large projects. Potential for infrastructure to deteriorate.	<ul style="list-style-type: none"> Monthly budget monitoring processes for Heads of Service and Directors with particular focus on agreed savings delivery. Ensure key programmes of activity (particularly linked to savings / downsizing) are adequately resourced. Quarterly Money Matters budget monitoring reports, MTFS, reserves and Treasury Management reports presented to members (includes capital). Management Team actions to monitor key areas of expenditure and consider remedial courses of action to address budgetary pressures. Robust Medium Term Financial Strategy and Plan, updated to reflect variations to resource and demand assumptions. Reserves regularly monitored and reviewed. Resources allocated to Base Budget Review. Rebalance budget savings via an ongoing risk assessment. 	25	<ul style="list-style-type: none"> Implementation of recommendations (Base Budget Savings Options and from scheduled Zero Based Review activity) from the Base Budget Service Review to be considered by members. Appropriate consultation to take place. Improve commercial and financial acumen. Continuously revalidate budget assumptions. Initial brief for council's business and operating model has been agreed by Cabinet and progress reports to be presented to the Political Governance Working Group. Appointment of consultants to review council's business model. Develop a future public service model for Lancashire in conjunction with its partners. Development of response to the Treasury and DCLG of future needs assessment/allocation formula. Consultation on property strategy will be agreed by Cabinet in May 2016 Review of 15/16 out turn position and impact on 16/17 budget not factored into the MTFS 	16	Section 151 Officer	As time progresses the risk to some extent reduces. However, the risk cannot be fully mitigated until all the necessary enabling decisions have been taken and the relevant budget options have been realised.
CR2	Risk to the ongoing longer-term Financial Viability of the County Council	Economic/ Political/Social	Problems stored up for the future as a combination of delivery issues in CR1 and further national funding reductions causing minimum reserve position not to be maintained with the risk of not being able to set a balanced legal budget in future years.	<ul style="list-style-type: none"> Base Budget Review has identified the risk of the County Council not being able to meet statutory obligations by 2018/19. The actual timing of when this situation may occur will be identified from the various monitoring and review process outlined in CR1 above 	25	<ul style="list-style-type: none"> Zero Based Review activity will determine the scope for additional savings in all remaining services within the County Council (ongoing). Links to Combined Authority work including Healthier Lancashire programme with the NHS as to any opportunities / additional pressures (ongoing). Lobbying – Treasury and DCLG by utilising ongoing existing networks MP's / Members , LGA, CCN, SCT (ongoing) Funding Model – Review of borrowing Strategy & Treasury Management Strategy (Q1 2016) Initial brief for council's business and operating model has been agreed by Cabinet and progress reports to be presented to the Political Governance Working Group. Appointment of consultants to review council's business model. Develop a future public service model for Lancashire in conjunction with its partners. 	25	MT	Level

						<ul style="list-style-type: none"> Development of response to the Treasury and DCLG of future needs assessment/allocation formula. 			
CR4	Delivering organisational transformation including capacity and resilience	Organisational	The failure to clearly implement the draft corporate strategy that sets out our vision, aims and priorities could result in a lack of purpose, direction and have an impact on service delivery and produce an adverse external audit report. The new structure that seeks to provide the ability to join up our services in a new way may not be fit for purpose. Ineffective employee engagement and buy in. A fall in staff morale could increase sickness absence and stress. Loss of knowledge and skills due to turnover puts demand on remaining staff which can expose the council to key person dependency and the risk of poor resilience.	<ul style="list-style-type: none"> The draft corporate strategy has now been amended to reflect the consultation outcomes and has been to full council. The draft corporate strategy is being used to inform the development of the property review and proposed neighbourhood plans. As part of the base budget review process options for service delivery and redesign have been developed including proposals to stop some services. Management Team approval of all new appointments and cessation of temporary staff contracts. Senior Management Development programme implemented. Positive employee communication and engagement. Wellbeing initiatives and support for managers and employees. Introduced a new scheme of delegation for heads of service. 	16	<ul style="list-style-type: none"> The corporate strategy has been amended to reflect the consultation outcomes and subject to amendment approved by full council. This process is on-going. Interim structures to reflect the base budget review options are being developed. Property strategy and accommodation review being progressed. Independent challenge See specific actions in relation to other risk entries i.e. Ofsted inspection Use of transformation reserves to fund temporary staffing Property review – preparatory work on planned premises closures Implementation of recruitment and retention strategies Defining new service models across the organisation Adults service transformation – recruitment of temporary staff Children's services transformation – implementation of the framework contract and appointment of temporary staff 	12	MT	Level
CR5	Failure to adequately protect and safeguard children	Social	Children are put at risk of harm.	<ul style="list-style-type: none"> MASH hub. Serious incident reporting. Quarterly safeguarding report, to include LSCB. SCR learning shared. Case file audits. Multi-agency inspections. Supervision with HOS. Performance Data 	25	<ul style="list-style-type: none"> Post Improvement Inspection Board with Independent Chair appointed. LSCB membership of Improvement Board and acting as critical friend. Post Inspection Improvement Plan. Review of all CiN cases using internal and external capacity. Social Work Recruitment Strategy. Peer Challenge. Newton Europe review of pathways. Established new QA system - developed risk sensible model develop CIN teams. LSCB have established new QA system including multi-agency case file audits. Monthly compliance recording of Strategy Meetings. Strengthen quality assurance role of Independent Reviewing Officers. Management Team approval of 15 additional IRO posts and 3.5 additional Quality and Review Manager posts post inspection. IRO completion of mid-point checks on case files. Creation of 12 Advanced Practitioner posts within the Audit Team post inspection. Creation of 1 PDRO within the Audit Team post 	16	Director of Children's Services	SW recruitment has improved. Senior managers are now working in districts. Independent Board Chair appointed. CSC remodelling including new CIN Hubs and PPA teams. 2 qualified social workers now working in Customer Access Service to ensure appropriate referrals to CSC and timely response to S47 enquiries.

						<ul style="list-style-type: none"> inspection. External challenge in Oct 16 & March 17 			
CR6	<p>Failure to comply with statutory requirements and duties relating to children looked after, children in need and children leaving care.</p>	Legal/ Political	LA is legally and possibly financially liable, judicial review. Further OFSTED intervention.	<ul style="list-style-type: none"> Corporate legal oversight. Quarterly safeguarding report. Serious incident reporting. Serious case review learning. Peer review and challenge. Stronger management oversight in Districts. 	25	<ul style="list-style-type: none"> Monthly compliance recording of Strategy Meetings and S47 Enquiries. LSCB have established new QA system including multi-agency case file audits. Revised audit framework to be launched on 13 May 2016, will strengthen management grip and quality assurance of practice. Back to basics SW practice training. Locality Practice Improvement Meetings. Develop PPA Teams. 	16	Director of Children's Services	Compliance reporting shows multi-agency Strategy Meetings are taking place in the majority of cases.
CR7	<p>Failure to recruit and retain experienced Social Work staff</p> <p>Failure to recruit and retain Independent Reviewing Officers.</p> <p>Failure to recruit and retain experienced BSO staff.</p>	Organisational	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	<ul style="list-style-type: none"> Vacancy monitoring. Recruitment strategy. Quarterly safeguarding report. Reliance on agency staff risk of high staff turnover and inconsistency of practice. CYP experience frequent changes of IRO. Lack of consistent IRO oversight of Care Plans and CP plans. Impact on the budget - cost of agency staff. Insufficient BSO support resulting in increased administrative tasks for managers and practitioners. 	25	<ul style="list-style-type: none"> Additional funding envelope. Enhanced recruiting. Weekly monitoring of SW workforce position. External agency contract to look at CiN cases and work following MASH. Newton Europe pathway review. Increased focus on retention. Improving SW recruitment is now at the levels within the original funding envelope prior to the £5m and recruitment is continuing. Additional funding envelope. Enhanced recruiting. Ring fenced interviews May 2016 followed by external recruitment. Newton Europe pathway review. Increased focus on retention. Management led request for regrading of Independent Reviewing Officers. Monthly report to SLT on impact of vacancies. Management Team approval of additional IRO and Q&R manager posts to increase capacity within the service. Vacancy monitoring. Interim revised structure agreed with additional new posts. Framework agreement in place 	16	Director of Children's Services	Downwards
CR8	<p>Reputational damage and risk of Direct Intervention by DFE.</p> <p>Negative media exposure.</p>	Reputational	<p>DFE manages services directly and removes them from the LA. Commission arrangements brought in.</p> <p>Loss of reputation. Impact on partner agencies.</p>	<ul style="list-style-type: none"> Safeguarding and Audit arrangements. Direct management oversight of services. Media planning around key issues and Serious Case Reviews. Scrutiny of key reports and information. Communication with Comms Team. 	25	<ul style="list-style-type: none"> Post Improvement Inspection Board with Independent Chair appointed. Post Inspection Improvement Plan. Senior management input into each of the 3 Children Social Care Districts. Review of all CiN cases using internal and external capacity. Social Work Recruitment Strategy. Peer Challenge. Newton Europe review of pathways. The council has been issued with an Improvement Notice by DFE which is the lowest level of implementation. Communication planning surrounding publication of Serious Case Reviews. Two way 	16	Director of Children's Services	<p>Positive - given feedback from OFSTED and appointment of Independent Chair</p> <p>Risk remains high given high profile of SCRs in the media.</p>

						<p>communication between LSCB and partner agencies.</p> <ul style="list-style-type: none"> LGA peer review later in the year 			
CR12	<p>Failure to implement/maintain systems that produce effective management information</p> <p>Failure to improve quality of data in Liquid Logic's systems (LCS/LAS)</p>	Organisational	<p>Ineffective collection, collation and input of data Ineffective use of business intelligence, resulting in the inability to identify and respond to changing trends and inform strategic decisions. Impact on strategic planning, understanding and management demand e.g. around demographics and ageing population profile Ineffective reporting arrangements.</p> <p>Statutory returns will be compromised, so incorrect performance will be reported nationally. OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. Service planning and management will be severely compromised.</p>	<ul style="list-style-type: none"> Information management strategy. Data Quality processes. Oracle. Local Information Systems. Corporate performance information. JSNA and other needs assessments Weekly provision of information to operational managers. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. Use of exception reports to flag up data quality issues. 	15	<ul style="list-style-type: none"> External support to focus on Children's Services data issues. Introduction of new governance arrangements for children's services. Introduce a new performance management framework that is aligned to draft corporate strategy. Agree performance, financial data and intelligence required for all levels within the County Council. Agree milestones and metrics. Project Accuracy being supported by Newton Europe, SRO and close involvement of Business Intelligence. Developing improvement plan that includes culture and assurance. The plan will include systems such as Controcc and LAS Performance sub-group reporting the Improvement Board Chair 	12	MT	Level
CR15	<p>Delivering new waste management arrangements</p> <p>Delivery of BOP 046 and GRLOL Transformation</p> <p>Delivery within 16-17 budget</p>	Economic Environmental Reputational Legal	<p>Excessive transitional costs. Excessive operating cost. Operational hazards and liabilities. Health and Safety issues. Permit non-compliance. Increased landfill/reduced recycling. Public disillusionment regarding recycling services. Impacts on WCAs and LWP. Employee and Union claims. Impacts</p> <p>Potential for budget overspend based due to following attributing factors: Initial calculation of waste budget (and MTFS); Increased and uncertain in year company operating costs; One off</p>	<ul style="list-style-type: none"> LCC strategic leadership of waste company. LCC HR, Legal and Financial support. Programme office monitoring of savings targets. Regular liaison with Environment Agency. Cabinet Member briefing. Union consultation. Regular liaison with WCAs and Blackpool Council. Communications strategies Regular budget monitoring and forecasting exercises. Monthly monitoring meetings. Direct financial support to waste service. Dedicated liaison with waste company. 	16	<ul style="list-style-type: none"> Approval of GRLOL structure by Board and Employment Committee. Staff consultation and notice of redundancy. Review and reconsideration of operating proposals. Submission of permit modification Review calculation of waste budget with finance. Development of detailed company operating and transition costs. Capitalisation where possible of transitional costs. Potential to reduce operational cost over and above GRLOL model. Potential delivery of additional one-off savings Commencing process to obtain external value of assets 	12	Head of Waste Management	<p>Need for implementation of formal and legal processes increases time taken to deliver transformation and subsequently increases risk. Elements of risk will reduce further as each stage of transformation is completed.</p> <p>Neutral. Clear potential exists to reduce various budget</p>

			and uncertain company transitional costs; uncertainty with regards to delivery of operational changes (i.e. odour management systems, insurances)						costs but realisation of these cannot be assumed to be guaranteed at this stage.
CR16	Management of the County Councils Assets	Organisational	<p>Failure to maintain council owned assets and buildings.</p> <p>Inability to deliver in the timescale required and impact on organisational ability to achieve savings</p>	<ul style="list-style-type: none"> Effective planning and programming method of delivery. Management of organisational transition and effective engagement with operational services Manage health and safety risks of customers and staff and ensure budgets are managed effectively to maintain assets to a satisfactory standard. Consider and manage risks associated with redundant properties. Planned maintenance approach. Risk assessments and regular H&S inspections. Presently undertaken by various operational service areas. 	16	<ul style="list-style-type: none"> Asset Management Strategy and accommodation review Consultation on property strategy will be agreed by Cabinet in May 2016 Establishment of a Premises Compliance Team Short-medium term facilities management strategy defined to deliver the spike in resource demand during the organisational transition period 	12	Head of Asset Management/ Head of facilities Management	↓ Downwards as long as the, shortly to be formed, Premises Compliance Team is effective in its efforts to improve strategic premises management activities
CR20	Transforming Care (Winterbourne)- the accelerated discharge of the population of adults with a Learning Disability from secure hospital in-patient beds into community houses	Economic/ Political/Social	<p>Increased pressure on the adult social care budget. Resettlement from hospital to community health and social care packages shifts the funding responsibility from solely NHS to a shared responsibility between CCG's and LA's to fund these high cost intensive health and social care packages. LCC may not be able to afford these new packages of care in the current financial climate. There is a National Plan to facilitate discharge therefore there is a reputational and political risk in not achieving as Lancashire is identified as a National Fast Track programme for this work due to the high number of Lancashire residents currently in in-patients LD</p>	<p>There is a governance structure for the Fast Track programme through the Fast Track Steering Group with representation from LCC Director Adult Social Care and HoS Commissioning working alongside SRO's from NHS and CCG's in order to achieve agreement on financial issues including the dowry and any future agreement for a pooled budget. There are identified work streams each with a defined action plan with leads identified from commissioners across Lancs. Work streams are monitored by the Steering group in addition to oversight by NHS England. The trajectory for possible discharge Sept 15- Mar 19 is to be carefully monitored so appropriate development and procurement of suitable housing and care can be planned for.</p>	16	<ul style="list-style-type: none"> Improved engagement with procurement colleagues to ensure due process is followed operationally in meeting the needs of this population. Lancashire's Fast track plan identifies the implementation of a revised model of care for people with LD improving crisis support through multi-disciplinary teams. This approach is aimed at reducing admissions and supporting providers to maintain a person's tenure in their chosen house rather than re-enter hospital. The plan commits to securing improved and alternate care and housing solutions for this population with the aim of creating shared tenancies with back ground support, rather than the current single tenancy model currently used, which will be more cost effective. There are plans to stimulate the provider market to inform innovative solutions to providing for these peoples care Health covering the costs from transformation 	12	Director of Adult Services	Level – however the direction of travel is increased as these are new service users entering the social care system from the NHS, the risk is constant from a financial perspective as the cost will be high and require providing for life. (although there are plans to mitigate costs through a dowry system and improved commissioning solutions)

			hospitals. The closure of Calderstones hospital is part of this national plan. Failure to agree locally a reasonable figure for a dowry that is planned to follow a person from hospital (NHS) to LA's is a further financial risk.			fund whilst developing pooled budgets.			
CR21	Service user/Customer risk associated with the inability to influence demand whilst expectations continue to rise	Reputational/social/economic/political	Demand and expectations continue to rise against a backdrop of reduced resources, thus leading to service failure and an increase in complaints. Failure to integrate health and social care to reduce pressures on demand and expectations as a result of ageing population. Unacceptable waiting times for assessment and reviews including occupational therapy, safeguarding and social care reviews.	Consultation and engagement with service users and customers. Co-ordination of communications. Changes and impacts communicated to stakeholders. Impact assessments. Alternative delivery options being explored as part of base budget review option development. Learning from complaints and oversight at CCPI.	16	<ul style="list-style-type: none"> • STP budget considerations 	12	MT	↓ Downwards.
CR24	Failure to achieve targets agreed with National Troubled Families Unit team due to the specific requirements of the programme. Failure to provide robust data to evidence the impact on outcomes for those families engaged with the programme	Economic Political	Failure to accrue maximum income from the programme for the authority Possible reputational risk as a result of failing to meet the national target. Risk of additional scrutiny of Lancashire's response to the programme	<ul style="list-style-type: none"> • Manual tracking processes in development with view to maximising payment by result claim opportunities • Improvement plan with operational staff with implementation to ensure that 'attached' cases meet national TFU principles • Ongoing data matching to identify new eligible families 	16	<ul style="list-style-type: none"> • Development of reporting processes to ensure monthly progress checks against targets • Business case to request additional resources to support tracking and claiming processes • Redesigning of outcomes plan to set more achievable/realistic targets • Establishment of multi-agency CYPTB task and finish group to drive multi-agency partnership working and explore how to embed the TFU principles within partner organisations • Exploration of digital systems that can be used to undertake the necessary analysis for Lancashire's response to the programme. • Workforce development ongoing for CAF and LP working. • Revised CoN thresholds and CAF documentation, Quality Assurance and processes to assist in meeting requirements. 	12	Head of Wellbeing, Prevention and Early Help	Downwards
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational	Organisational	Not providing adequate service to SEND leading to inspection failure. Lack of appropriate IT platform. Failure to recruit and retain staff. Commissioning arrangements with health not consistent.	<ul style="list-style-type: none"> • Self-assessment completed against new framework • N/W regional peer support group established 	16	<ul style="list-style-type: none"> • Implementation of the early help (IT) module. • Recruitment of qualified staff funded by the SEND reform grant. • Commissioning arrangements with Health being reviewed. 	12	Head of Special Education Needs and Disability	Level

	needs and/or disabilities.								
CR26	Proposed museum closures	Organisational/political/reputational/financial/legal	<p>The proposal to close five museums has attracted negative publicity nationally, regionally and locally due to the national importance of the sites and collections</p> <p>Impact on staff leading to sickness absence</p> <p>The Council could be challenged by Judicial review if the process by which museums are either closed or transferred to a third party cannot be shown to be fair and legally robust</p>	<ul style="list-style-type: none"> Weekly meetings between Museums managers and asset management, equality and diversity, communications and business intelligence to proactively manage the process. Decisions on process continue to be cleared through legal services and cabinet member as appropriate. Expressions of interest have been invited for interested parties that can show they have the resources and expertise to continue operating the museum and ensuring the collections continue to be made accessible to the public. 	16	<ul style="list-style-type: none"> Public consultation has taken place to inform future service design and strategy of the museum service EIA detailing the mitigating actions have been completed A Cabinet Working Group with cross party membership has been established to ensure that any transfer of assets which may take place is transparent, fair and robust. Information has been circulated to all staff to assist them with their health and wellbeing as a result of closures. Senior management update staff on a weekly basis Application for heritage lottery funding submitted 	12	Head of Libraries, museums, culture & registrars	Level
Opportunity Identification Number	Opportunity Description	Opportunity Type	Possible Benefits	Progress to date	Opportunity Score	Maximising Actions	Residual Opportunity Score	Opportunity Owner	Direction of Travel
C01	Establishing a new model for public service delivery in Lancashire	Political	<p>The establishment of a Lancashire Combined Authority and securing a devolution deal with central government. A Combined Authority is an accountable body in its own right – this means it is a single point of decision making on agreed functions (quicker and simpler decisions); has powers delegated to it from Government and the individual local authorities (subject to local discussion and determination); can hold substantial amounts of Government and European funding. In relation to transport, greater co-operation will allow improvements to the region's public transport network.</p>	Lancashire Leaders to formally take proposals for a new model (in principle) to their authorities. Briefings for County Council members. Progression of work streams.	12	<ul style="list-style-type: none"> Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government. Constituent authorities of the proposed combined authority have agreed to proceed with the establishment of a shadow CA in July 16 One Public Estate submission being developed 	16	Chief Executive	↑ Upwards

CO2	Delivering economic growth	Economic	Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully secured new resources for Lancashire to support job and business creation, housing growth and the delivery of strategic transport infrastructure linking to drive economic growth and regeneration, linking residents and businesses with economic opportunities.	Lancashire Enterprise Partnership has secured almost £1 billion of national resources to deliver a transformational programme of economic growth which see the delivery of new jobs, business and housing growth and strategic transport infrastructure. Key programmes/projects secured include the Preston, South Ribble and Lancashire City Deal, Growth Deal, three Enterprise Zones, Growing Places Funding, Boost Business Lancashire and Superfast Broadband.	12	<ul style="list-style-type: none"> • Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government to ensure national resources to support economic growth and regeneration are secured. • Maximise the support from key local and national public and private sector stakeholders outside of the County Council. 	16	Director of Economic Development	↑ Upwards
CO3	Opportunities through delivering the draft corporate strategy and property strategy	Economic/Social	This strategy seeks to ensure we continue to meet the immediate needs of our communities while shaping the council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. It sets out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire. The strategy will help to ensure that we deliver on the following strategic outcomes: - To live a healthy life - To live in a decent home in a good environment - To have employment that provides an income that allows full participation in society	A draft Corporate Strategy, has been produced and has been subject to Consultation. Cabinet considered the Strategy document and the approach contained within it at its meeting of the 26 November 2015. The Strategy was submitted to full Council on the 17 December 2015. The Strategy was debated and amendments agreed. It was resolved that the Corporate Strategy, as now amended, be approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration. That review process is ongoing	12	<ul style="list-style-type: none"> • Use the strategy and associated evidence base to guide our decision making and as the overarching framework for planning interventions which will meet the needs of communities • Digital by design • Embedding evidence based policy/decision making to plan for the future • Aligning with health to meet need 	16	MT	↑ Upwards
CO4	Health and Social Care Integration	Organisational	The principle of the separate organisations working together to align plans, strategies and budgets will involve the development of new delivery models and ways of working, to avoid duplication and focus activity where it is needed, recognising that current models of service delivery are unsustainable. Integration would provide the best opportunity to	Participation in the Healthier Lancashire programme building upon the "Alignment of the Plans" work undertaken	12	<ul style="list-style-type: none"> • Recognise the need for: an ambitious vision, robust partnerships, clear and credible delivery plans, and strong leadership and governance arrangements at a pan-Lancashire level. • Lead the integration agenda, recognising the need for an ambitious vision, robust partnerships, clear and credible delivery plans. Strong leadership and governance arrangements at a pan-Lancashire level. 	16	MT	Level

			<p>minimise the impact of funding reductions as well as providing a better offer for service users</p>						
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Key to Scores

	CATASTROPHIC (for risk) OUTSTANDING (for opportunity)	5	10	15	20	25
	MAJOR	4	8	12	16	20
	MODERATE	3	6	9	12	15
IMPACT	MINOR	2	4	6	8	10
	INSIGNIFICANT	1	2	3	4	5
		RARE	UNLIKELY	POSSIBLE	LIKELY	CERTAIN
			LIKELIHOOD			

Audit and Governance Committee

Meeting to be held on 30 June 2016

Electoral Division affected: All

Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing

(Appendices 'A' and 'B' refer)

Contact for further information:

Neil Kissock, Director of Financial Resources (01772) 536154

Neil.kissock@lancashire.gov.uk

Executive Summary

The external auditor, Grant Thornton, is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit and Governance Committee gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The Chair of the Audit and Governance Committee has been asked to provide information in respect of Lancashire County Council relating to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

The letter from Grant Thornton is attached at Appendix A. A response has been prepared for consideration by the committee and is attached at Appendix B.

Recommendation

It is recommended that:

- a) The response attached at Appendix B is considered and approved.
- b) The Chair of the Audit and Governance Committee be authorised to sign the response on behalf of the committee.

Background and advice

The external auditor, Grant Thornton, is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit and

Governance Committee gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The Chair of the Audit and Governance Committee has been asked to provide information in respect of Lancashire County Council relating to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

The letter from Grant Thornton is attached at Appendix 'A'. A response has been prepared for consideration by the committee and is attached at Appendix 'B'.

Consultations

N/A

Implications

This item has the following implications, as indicated:

Risk management

This letter will provide supporting evidence to Grant Thornton in determining its opinion on the financial statements of the County Council for 2015/16.

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

Paper	Date	Contact/ Directorate/ Ext
N/A		

Reason for inclusion in Part II, if appropriate:

N/A.

Lancashire
County
Council
County Hall
Preston
Grant Thornton UK
LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB

County Councillor Terry
Brown
Audit Committee Chair
PR1 0LD

T +44 (0)161 953
6900 F +44 (0)161
953 6901 www.grant-
thornton.co.uk

13 May 2016

Dear Cllr Brown

*Lancashire County Council Financial Statements for the year end 31 March
2016*

*Understanding how the Audit Committee gains assurance from
management*

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit Committee gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me with your responses to the following questions.

- 1 How does the Audit Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organization (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.

- 3 How does the Audit Committee gain assurance that the County Council has complied with all relevant laws and regulations?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Please could you provide a response by 30 June 2016 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Karen Murray
Director
For Grant Thornton UK LLP

Chartered Accountants

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30 June 2016

Dear Ms Murray

Response of the Chair of the Audit and Governance Committee to Grant Thornton's request for information to support its compliance with International Standards on Auditing

The Audit and Governance Committee and I have considered your request for information to enable you to comply with International Standards on Auditing and the committee has approved the following response.

Your requirements

Grant Thornton is obliged to comply with International Standards on Auditing. In particular it is required to gain an understanding of how the Audit and Governance Committee exercises oversight of management's processes in respect of Lancashire County Council in relation to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

The role of the Audit and Governance Committee

Under its terms of reference the Audit and Governance Committee advises the Council on risk, control and governance, oversees the planned activity and results of both internal and external audit, and considers the adequacy of management's responses to issues identified by audit activity. It therefore oversees the work of the Council's Internal Audit Service, which normally provides assurance to the council on the adequacy and effectiveness of its internal controls, including financial controls, and also supports the Council in its management of the risk of fraud by providing a counter fraud and investigatory service. However, as you are aware, and as discussed by the Committee during the year, the Internal Audit Service was not able to complete a risk-based programme of work for 2015/16 sufficient to support an overall opinion of the Council's overall governance framework. An audit plan for 2016/17 and beyond has however now been agreed by the Committee and a commitment given that this will be delivered and therefore form the basis for an overall opinion for 2016/17.

Since fraud represents a lapse in financial control, the Audit and Governance Committee is also charged with responsibility for overseeing management's arrangements in response to the risk of fraud.

In an organisation of Lancashire County Council's size, a proportionate approach must be taken to an assessment of risk and to the assurance required over the controls

implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.

The Audit and Governance Committee's oversight of internal audit work

The Audit and Governance Committee approves the annual internal audit plan, which is based on an assessment of the Council's risks and the operational and financial controls that mitigate these. It is normally built upon an assessment of risk that includes the risk of non-compliance with relevant laws and regulations. The Internal Audit Service also works to support management in managing the risk of fraud and sets aside audit resources for the investigation of suspected or alleged instances of fraud: this work continued during 2015/16.

The Audit and Governance Committee normally receives regular progress reports from the chief internal auditor, including reports on breaches of internal control and fraud risks. The Director of Governance, Finance and Public Services and other officers attend the Audit and Governance Committee to brief them on control issues as necessary to respond to audit reports and to inform the Committee of progress where remedial action has been agreed.

The Council's Internal Audit Service operates a proactive programme to identify and pursue indications of fraudulent activity in particular within the Council's key financial systems, regularly testing both the corporate controls and controls operated within individual services. Computer assisted techniques and additional testing of areas susceptible to fraud have been developed to enable the Internal Audit Service proactively to assess whether there are indications of malpractice in key areas. Although audit work has been curtailed during 2015/16, work on the Council's key financial systems included consideration of the controls to manage the risk of fraud.

As Grant Thornton will be aware, the Council actively participates in the National Fraud Initiative which serves as a regular extension of the work done by the Internal Audit Service throughout the year. Checks are carried out on the reports raised by this initiative and support is also given to Lancashire district councils.

The Internal Audit Service supports the financial whistle-blowing helpline and regularly responds both to formal whistle-blowing calls and to less formal concerns raised with individual auditors by staff across the Council. Investigations are undertaken promptly and pursued vigorously and, where appropriate, there is good liaison with the police.

Both management and the Audit and Governance Committee are aware of Grant Thornton's assessment of the level at which misstatements of Lancashire County Council's financial statements are deemed to be material, and are briefed on the external auditor's assessment of the risks of material misstatement of the financial statements, including the risk of fraud. Any risk of misstatement due to fraud with a potential impact of this magnitude would be highlighted immediately by the Internal Audit Service to both management and the Audit and Governance Committee.

The Audit and Governance Committee's oversight of management processes

The Audit and Governance Committee takes seriously its role in reviewing Lancashire County Council's internal control effectiveness, including financial control arrangements and compliance with the law. It values its independence of both the executive and scrutiny functions and its direct reporting line to the council. It is also charged with oversight of the overall arrangements by which the risk of fraud is managed.

The Audit and Governance Committee receives information about instances of financial impropriety and fraud as well as breaches of control within the Internal Audit Service's annual report.

A counter fraud policy statement, strategy and work-plan, and a whistle-blowing policy are in place and are periodically communicated to the Council's staff. The Audit and Governance Committee receives periodic reports from the Internal Audit Service of issues being investigated as potential impropriety or fraud, and management's responses to these.

Fraud and internal control

Other than the issues raised in the Internal Audit Service's annual report and the year-end report on counter fraud and special investigations, the Audit and Governance Committee is unaware of any further breaches of internal control within Lancashire County Council during 2015/16. The Committee has considered the existence and operation of internal controls (including, implicitly, segregation of duties) and where it has concerns, these have been minuted during the year.

Similarly, the Audit and Governance Committee is unaware of any further actual, suspected or alleged frauds, or any related party relationships or transactions that could give rise to instances of fraud affecting the Council.

The Audit and Governance Committee is not aware of any entries in the accounting records of the Council that it believes or suspects are false or intentionally misleading.

Laws and regulations

As stated above, in an organisation of the size and complexity of Lancashire County Council, absolute assurance cannot be gained that compliance with all applicable laws and regulations is achieved. The Audit and Governance Committee is not aware of any significant areas of non-compliance during 2015/16.

Litigation and claims

The Audit and Governance Committee is unaware of any actual or potential litigation or claims against the Council that would have a material impact on the financial statements.

Yours sincerely

Chair of the Audit and Governance Committee
Lancashire County Council

Audit and Governance Committee

Meeting to be held on Thursday, 30 June 2016

Electoral Division affected:
(All Divisions);

Waste Facilities Valuation - Business Decision Analysis

Contact for further information:

Neil Kissock, Tel: (01772) 536154, Director of Financial Resources,
neil.kissock@lancashire.gov.uk

Executive Summary

At the Audit and Governance Committee meeting of May 2016, the external auditors, Grant Thornton, presented the audit plan for the 2015/16 Statement of Accounts for Lancashire County Council. The audit plan introduced to the Committee items the auditors considered potential significant risks of material misstatement from their understanding of the organisation.

The following item pertained to the valuation of 'property, plant and equipment' in respect of the waste plants owned by the Council. This referred to Executive Scrutiny Committee receiving a report on 19 February 2016 which set out several recommendations about the future use of the plants and the changes to the services delivered from these sites.

In the view of the external auditors, the decision to 'mothball' elements of the waste provision at the two waste recovery parks potentially had an impact on the valuation of the assets held by the Council, the following elements formed areas the external auditors wished to explore:

- a) Timeline of the plans; and
- b) Consideration of the impact of these plans on the Council's valuations for the sites

Recommendation

The Committee is asked to agree the conclusions drawn in this report.

Background and Advice

The Waste PFI Project Agreement entered into by the County Council and Global Renewables Lancashire Limited was brought to an end in July 2014 by the mutual consent of the parties. Under this agreement the assets, namely the two strategic waste management facilities at Leyland and Thornton, would be transferred to the County Council and Blackpool Council. The operating company Global Renewables Lancashire Operations Ltd (GRLOL) would be acquired by the County Council and

become a company wholly owned by Lancashire County Council and Blackpool Council.

Following the base budget review undertaken last year, Cabinet in November 2015 took a decision to deliver budget savings in relation to the waste facilities as follows:

- To reduce processing activities and associated costs within the Farrington and Thornton waste recovery parks, where these processes are uneconomic relative to available alternative disposal options.
- In ceasing processing activities any related plant and equipment will be 'mothballed' and maintained to take advantage of future market opportunities.
- Cease composting of co-mingled food and garden waste. Advise waste collection authorities that in future the council will only provide facilities for composting green waste that does not include food.
- Downsize the council's waste company through a transformation and restructuring exercise.
- Cease the Environmental Education service (including adult and community programme) provided by the company
- Cease the waste minimisation and communications services provided by the waste company.
- Undertake market testing and procurement activity to determine potential market opportunities for reconfiguring the entirety of the council's waste services. This will include exploring the release of value from assets including the council's waste recovery parks, transfer stations and long term landfill contracts.

This gave approval to reduce the revenue budget from 1st April 2016 by £8.500m and to use £7.750m reserves in 2016/17 and £4.500m reserves in 2017/18 to fund the 'transition period' to enable service reconfiguration by 1st April 2018.

In February 2016 the Cabinet Member for Environment, Planning and Cultural Services approved:

- The proposed waste processing requirements and specification for services to be provided by GRLOL and
- The authority to make minor amendments to the Service Level Agreement, delegated to the Head of Service – Waste Management

External Audit

At the Audit and Governance Committee meeting of May 2016, the external auditors, Grant Thornton, presented the audit plan for the 2015/16 Statement of Accounts for Lancashire County Council. The audit plan introduced to the Committee items the

auditors considered potential significant risks of material misstatement from their understanding of the organisation.

The following item pertained to the valuation of 'property, plant and equipment' in respect of the waste plants owned by the Council. This referred to Executive Scrutiny Committee receiving a report on 19 February 2016 which set out several recommendations about the future use of the plants and the changes to the services delivered from these sites.

In the view of the external auditors, the decision to 'mothball' elements of the waste provision at the two waste recovery parks potentially had an impact on the valuation of the assets held by the Council, the following elements formed areas the external auditors wished to explore:

- a) Timeline of the plans
- b) Consideration of the impact of these plans on the Council's valuations for the sites

Considerations

The decision taken in November 2015 related to the reduction in processing activities and associated costs within the Farrington and Thornton waste recovery parks, where these processes were uneconomic relative to available alternative disposal options. Where processing activities were ceased any related plant and equipment would be 'mothballed' and maintained to take advantage of future market opportunities.

This report was proposing operating efficiencies relating to waste processing but allowed for the continued use of the preserved plant and equipment where their use was economically beneficial.

The decision taken in February 2016 related specifically to the revised operating agreement with GRLOL which reflected the November decision to downsize the council's waste company. The current transformation plan involves the downsizing taking place in 2016/17.

Cabinet also agreed in November 2015 for market testing to be undertaken to determine potential market opportunities for reconfiguring the entirety of the council's waste services. This was to include exploring the release of value from assets including the Council's waste recovery parks, transfer stations and long term landfill contracts. Market testing has commenced and work continues in June to gather information from respondents.

Conclusion

Given the financial circumstances of the Waste PFI contract, the Council has made every effort through its decisions from 2014 to reduce revenue costs wherever possible whilst delivering its statutory responsibilities. The appraisal and presentation to Cabinet Members of the impact on the asset value in the decision to 'mothball' parts of the facilities is considered to be appropriate given the decision to preserve and protect equipment formed part of wider proposals around the operations. A

further decision would be expected to be taken to Cabinet Members should the market testing work suggest a future course of action that may affect the value of the facilities.

As per the accounting code, the Council is required to revalue its assets within a five year period unless it is considered that a material change in the value has occurred. In recognition that service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services, the Code requires operational property, plant and equipment to be measured by their current value to the authority in their existing use. Consequently, the Code requires that property, plant and equipment that are operational will be measured for their service potential at depreciated replacement cost for assets where there is no market and/or the asset is specialised.

It must be noted therefore that the value of property, plant and equipment held in the Council's Balance Sheet does not represent an estimate of how much the authority would receive if they sold the asset. In the event that there is a change in valuation there are a number of accounting rules that have to be followed. These will result in changes in the Balance Sheet but there is no impact on the amount to be funded from taxation.

The major items of plant and equipment were valued by GVA Grimley Ltd in March 2015 at depreciated replacement cost. The Council has requested valuation advice from Hilco Global to support a decision on the appropriate treatment of these assets for the 2015/16 Statement of Accounts. Hilco Global is an independent financial services company considered a leading authority on asset appraisals.

The resolution of this issue has taken longer than originally anticipated due to the complexities around the technical aspects. It is not certain however at this point that any change to the current valuation will be required, but confirmation will be provided at the next committee meeting.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

As set out in the report

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

Paper	Date	Contact/Tel
Money Matters – The Financial Strategy for 2016/17 to 2020/21	26/11/2015	Neil Kissock, (01772) 536154, Director of Financial Resources
Proposed waste processing requirements and specification for services delivered by Global Renewables Lancashire Operations Limited	19/02/2016	Steve Scott, (01772) 533755, Head of Service - Waste Management

Reason for inclusion in Part II, if appropriate

N/A

