

Lancashire County Council

Annual Governance Statement 2014/2015

1. The Council's responsibilities

- 1.1. Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3. The Council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The Code is currently under review and a revised Code will be approved during 2015/16.

2. The purpose of the Governance Framework

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

- 2.3. The governance framework has been in place at Lancashire County Council for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

3. Governance Issues in 2013/14

- 3.1 The Annual Governance Statement for 2013/14 highlighted that the County Council had experienced exceptional challenges during 2013/14 which had absorbed and diverted a considerable amount of senior leadership time. These circumstances had impacted upon a number of the issues relevant to the adequacy and effectiveness of the Council's control environment highlighted by the Chief Internal Auditor's Annual Report which resulted in an overall limited assurance of the Council's control environment.

The Council's Response to the Chief Internal Auditors Report 2013/14

- 3.2 The Council's Leadership and Management Team acknowledged that the exceptional events of 2013/14 had been a diversion having a direct impact on the assessment in the Chief Internal Auditor's report. It was recognised that a number of key aspects of the report for 2013/14 which related to high risk areas of operation could be attributed to failures in the delivery of services by OCL. These had been addressed by the renegotiation of the Strategic Partnership arrangements and the return of key services to the Council.
- 3.3 The Management Team gave serious and careful consideration to the Chief Internal Auditor's opinion on the County Council's control environment, and confirmed its very strong commitment to ensure that basic controls were maintained and, particularly in those cases highlighted by the Annual Report, significantly improved. They expressed their commitment to ensuring that robust governance remained at the heart of the Council's business and to ensure that areas of concern highlighted by the Annual Report would be rectified.
- 3.4 Some areas identified in the Chief Internal Auditor's Annual Report for 2013/14 had already been addressed through remedial actions reported to the Audit and Governance Committee. However those remedial actions did not form part of the 2013/14 assurance judgement as the implementation of agreed action plans had yet to be audited.
- 3.5 All outstanding actions formed part of the Chief Internal Auditor's Audit Plan for 2014/15 with the intention that all areas of high and moderate risk assessed as limited or nil assurance would achieve at least a substantial assurance

Specific Actions

- 3.6 Regular reports have been made to the Council's Management Team during 2014/15 to ensure that the Council's control environment is sound and applied consistently to ensure the successful delivery of corporate objectives.

4. Emerging Governance Issues

- 4.1 The following risk areas reflect a number of the issues identified in the External Audit Plan for 2015/16 and similarly will feature in the Internal Audit Plan for 2015/16, which will also draw upon the Council's Risk Register (see below).

To be added from the External and Internal Audit Plans to be submitted to the Audit and Governance Committee on 3 April.

Chief Internal Auditors Annual Report 2014/15

- 4.2 *To be completed once available. On the basis of the update report submitted to Committee for the meeting on 13 April. No major issues are anticipated with most functions audited attracting substantial assurance.*

The Council's Transformation Programme

- 4.3 With effect from 1 April 2015 the transformation of the Council's senior management structure at grade 11 and above is complete and the Council now moves into the second phase that will see a new look organisation in place by April 2016.
- 4.4 The principles underpinning the second phase for staff at grade 10 and below remain the same as in the first phase but the task is quite different because of the scale of the change with around 12,000 staff in scope. Consultation on the proposed approach has now commenced, the intention being that as many staff as possible will be "slotted into roles" rather than having to go through a competitive recruitment exercise or, where that is not possible, with a greater use of closed ring fences.
- 4.5 There will be a far smaller reduction in staff numbers in the second phase relative to the first phase and there continues to be a commitment that no member of staff will be made compulsorily redundant before 1 April 2016.
- 4.6 Management Team accepts that 2015/16 will present challenges as the Council transitions from the "old" to the "new", particularly given the need for services, some of them quite new, to deliver budget savings.

Financial Management

- 4.7 The challenge facing the County Council is unprecedented, having to find £300 million of savings in the council's revenue budget by 2017/18.

- 4.8 The Service Offers agreed at the Council's budget meeting in February recognise the need to manage demand more effectively, particularly in relation to social care, offering earlier help for those who need it and ensuring that preventative services are effective. Central to this service offer is the recognition for the Council to work more closely with communities and partners to develop new ways of delivering services, targeting and combining public services where they can be the most effective.
- 4.9 The Council has the availability of significant one-off resources to enable the effective downsizing of the staffing structure over 2015/16 to 2017/18 and beyond, including resources to fund voluntary severance. The County Council will also invest in ICT and other service developments which will enable the Council to deliver its savings programme and to provide risk management resources to ensure financial and service sustainability.
- 4.10 However the Council continues to face significant financial challenges in the period 2015/16 to 2017/18 and beyond. There is considerable legislative, operational and delivery risk, and it is vital that the Council maintains robust financial and operational monitoring to oversee the delivery of savings, and is able to take action to respond to the changing environment. The interim Director of Financial Resources will provide regular reports on budget and performance to Management Team including an assessment of the delivery of savings identified in the 2015/16 budget.

The Better Care Fund

- 4.11 The Council has recently entered into a planning and pooled budget arrangement with the Clinical Commissioning Groups (CCGs) known as the Better Care Fund (BCF). This plan sets out the Council's and CCGs' vision to deliver integrated health and social care systems to reduce demand on acute hospital and care home provision in favour of a sustainable integrated neighbourhood health and social care system. Lancashire's BCF plan has now been approved by Government without conditions.
- 4.12 The pooled budget for the BCF is c £90 million, with a current Council contribution of £9.438 million, the pooled fund to be used for the purpose of commissioning services for citizens. The Council will host and manage the pooled fund on behalf of itself and partners and will be responsible for its internal audit. Similarly, the Council's External Auditor will be responsible for the external audit of the pooled fund, in each case their reports being made available to the Health and Wellbeing Board.

Peer Review

- 4.13 Last autumn, at the invitation of the Administration, the Council underwent a Local Government Association Corporate Peer Review Challenge. The challenge process is primarily an improvement tool for councils and focuses on five core components that will help to provide an indication of a local authority's ability and capacity to deliver on its plans, proposals and ambitions. With this in mind, the particular areas of focus for the Council's Peer Review Challenge covered the ongoing transformation process along with a general "health-check".
- 4.14 The Peer Review Challenge report has been accepted by the Council as fair and balanced, picking out a lot of strengths within the Council such as economic development and our work with other public sector partners. The report also however noted a number areas for improvement/key challenges including:
- relationships with the health system
 - our role as a strategic leader for the county and opportunities for more collaborative working
 - financial leadership
 - a clear, set out programme for the transformation
 - internal control and risks
- 4.15 These areas for improvement highlighted in the report have been included within the Council's improvement plan for the new corporate strategy.

Risk

- 4.16 One particular issue identified by the Peer Review Report was the need to create an effective corporate risk register or alternative structured approach to identifying, monitoring and mitigating corporate risk. If used effectively, such an approach bolsters internal controls and better equips the Council as it moves through future large scale change.
- 4.17 With that recommendation in mind Management Team have agreed to take up a proposal from Grant Thornton for a facilitated workshop, the objectives being:
- to re-emphasise the benefits of strategic risk and opportunity management and identify external best practice approaches that could work for Lancashire
 - to consider the Council's current approach to risk management and what practical steps can be taken to strengthen it where necessary
 - to create a framework within which Management Team can identify and evaluate the current risks and opportunities facing the Council
- 4.18 Management Team are committed to creating an effective risk register owned by them, with regular updates provided both to Management

Team and also to Members, including the Audit and Governance Committee.

Proposals for a Combined Authority for Lancashire

- 4.19 An important recent development has been the exploration of alternative decision-making arrangements for Lancashire, including moves toward a Combined Authority model. To this end, local authorities in Lancashire have been actively working together to consider and define new governance and collaboration arrangements.
- 4.20 At this stage, a preferred governance model has yet to be identified. However, local councils recognise the need to explore enhanced arrangements capable of making robust and binding shared decisions. Leaders and Chief Executives are therefore exploring a fully-integrated approach to shaping, delivering and monitoring local growth and regeneration strategies. Agreement has been secured to undertake a formal governance review of all possible options, including the formation of a Lancashire Combined Authority, to assess which model, if any, would improve delivery of our major aspirations.

5. The Council's Governance Framework

- 5.1 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.

- 5.2 The Council's Administration have developed a Strategic Direction document with the intention that this is an interim statement of Policy, the intention being to develop a Corporate Strategy to sit alongside its budget for the period 2015-2017.

Reviewing the Council's vision and its implications for the Council's Governance arrangements.

- 5.3 To measure the effectiveness and delivery of the Council's ambitions, the Council's Cabinet Committee on Performance Improvement regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, the Chief Executive and Directors. The Council's Management Team is currently working to embed more effective performance measures across a wide range of its services.
- 5.4 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

- 5.5 As part of developing the new corporate strategy the County Council's vision will be underpinned by a set of objectives that will be clearly articulated to both partners and the Lancashire public. A new set of performance measures will also be adopted so that progress against the objectives can be monitored and appropriately managed.

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

- 5.6
- 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

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

- 5.7 The Council operates a leader and cabinet model of executive government with a Cabinet of eight members including the Leader and Deputy Leader of the Council. The responsibilities of the individual Cabinet Members are outlined in the Council's constitution. In 2014/15, a full review of the council's decision making arrangements was undertaken via a member officer working group, reporting to full council. Detailed alternative options for a committee system and a "hybrid" system were drafted, and the outcome of the review was to maintain the current Cabinet model. The working group continues to meet at the

request of Full Council to consider some aspects of the decision making arrangements, such as Full Council procedures and the roles of some committees.

- 5.8 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 has been 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.
- 5.9 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

- 5.10 The Council has four scrutiny committees.
- 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.
- 5.11 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.

Partnership arrangements

- 5.12 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 effect 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. The review, development and implementation of a single commissioning framework for Domestic Abuse is an example of how the Council has led partners in delivering a model of provision, consistent across Lancashire and using pooled resources, to provide support for victims and perpetrators of domestic abuse.

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

- 5.13 The code of conduct for members and the terms of reference of some of the Council's committees were revised during 2012/13 to reflect changes to the governance arrangements arising from the Localism Act 2011. The former Standards Committee was disestablished and complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee. 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.

- 5.14 The Council agreed to revise its Scheme of Delegation in May 2012 bringing in those changes with the new structure from April 2015. The intention behind the changes is to remove bureaucracy and to ensure that decisions are made at the appropriate level in the organisation.
- 5.15 The council undertook a major review of partnerships in 2013/14, resulting in significantly streamlined arrangements and improved coherence and integration across some of the key strategic partnerships. For example, local structures around the Children's Trust and the Safeguarding Children Board have been brought together, replacing 12 District Children's Trust Boards and 3 Locality Safeguarding Groups with 5 new Children's Partnership Boards established. A number of other partnership bodies were also disestablished or substantially revised and this has reduced the number of strategic multi agency meetings by approximately 300 a year.
- 5.16 A key feature of the partnership review is an ongoing commitment to continual evaluation of partnership structures to ensure a model that is fit for purpose, sustainable and allows multi agency decision making that improves outcomes for people.
- 5.17 The recent Peer Challenge commented that there is positive recognition from a number of partner agencies of the efforts the council's leadership

is making in strengthening external relationships. There are a number of examples where the council is working 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 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 Commissioners 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 Councils Information Governance mandatory training course for all staff and Heads of Service Information Governance awareness sessions.

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

- 5.18 The Council seeks to manage its risks well. Management Team are currently reviewing the Council's approach to risk management and are committed to creating an effective risk register owned by them, with regular updates provided both to Management Team and also to Members, including the Audit and Governance Committee.

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

- 5.19 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.

Ensuring effective management of change and transformation.

- 5.20 High level milestones for the County Council's Transformation Programme were set out by Management Team in November 2013. A project team was established to manage delivery of Phase 1, with Management Team acting as Programme Board, providing leadership and oversight of significant issues and risks. Delivery has focussed around five key interrelated themes: Culture, behaviours and leadership; Developing the service offer; Restructure; Systems and processes; Skills development.
- 5.21 Employee and Trade Union consultation has helped to shape future structure and the agreed principles for appointment to the structure. Decision making in respect of the new structure for posts at Grade 11 and above, and the County Council's future service offer, has been supported by Equality Analysis where appropriate.

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)

- 5.22 The Council's financial management arrangements conform with the governance requirements of CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government' (2010). The Council has appointed an interim Section 151 Officer who operates in accordance with the relevant statutory and professional guidance.
- 5.23 The County Council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the County Council to significantly reduce the level of its annual revenue expenditure. The Council's financial planning and management arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

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)

- 5.24 The Council's Internal Audit Service operates in accordance with professional standards and is a key element of the corporate governance framework.

Ensuring Effective arrangements are in place for the discharge of the Monitoring Officer function.

- 5.25 The Council has appointed a Monitoring Officer and Deputy Monitoring Officer. Each role operates in accordance with the relevant statutory and professional guidance.

Ensuring Effective arrangements are in place for the discharge of the Head of Paid Service function.

- 5.26 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.

- 5.27 The Council has an Audit and Governance Committee which operates in accordance with the CIPFA Statement and receives appropriate training. It provides independent oversight of the adequacy of the Council's

governance, risk management and internal control frameworks, and oversees the financial reporting process.

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

- 5.28 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.

- 5.29 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.
- 5.30 The Council has robust arrangements for processing all complaints, including those made under statutory social care procedures. These arrangements have recently been the subject of a detailed internal audit review which resulted in substantial assurance being given.

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

- 5.31 A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs.
- 5.32 All senior officers appointed to the new organisation structure will participate 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.

- 5.33 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.

- 5.34 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 consider processes for complaints against care providers across all sectors. The Council also hosts the "Healthwatch" organisation, and supports it in its work in relation to health and social care providers.
- 5.35 The Council has strong relationships with district and parish councils, and works collaboratively with them.

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 authority's overall governance arrangements.

- 5.36 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.
- 5.37 County Council Scrutiny Committees have continued to conduct scrutiny of external bodies and partners, including the Health services and the Police service.

6. Internal Control

To be completed following submission of the Chief Internal Auditor's Annual report.

7. Key Issues

Set out below are key issues that have arisen from internal audit work.

To be completed following submission of the Chief Internal Auditor's Annual Report.

8. Review of Effectiveness and a Programme of improvement

To be completed following submission of the Chief Internal Auditor's Annual Report.

Signed:

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Leader of Lancashire County Council

Chief Executive of Lancashire County Council

Date

Date