

**LANCASTER CITY COUNCIL**  
**DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16**

**SCOPE OF RESPONSIBILITY**

Lancaster City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Lancaster City Council has approved and adopted a *Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on the council's website or can be obtained from the Internal Audit and Assurance Manager, Town Hall, Dalton Square, Lancaster, LA1 1PJ.

This statement explains how the council has complied with the Code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to reviewing the effectiveness of the system of internal control and the publication of an annual governance statement.

**THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework consists of the systems and processes, and culture and values by which the authority is directed and controlled and the activities through which the council accounts to, engages with and leads the community. The framework enables the authority 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 forms a key element 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 ongoing process designed to identify and prioritise the risks to the achievement of Lancaster City 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.

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2016 and up to the date of publication of this *Annual Governance Statement* and the *Statement of Accounts*.

**THE GOVERNANCE FRAMEWORK**

The following paragraphs set out the key elements (as incorporated in the Code of Corporate Governance) that the council relies upon to deliver effective corporate governance.

- An annual review of the council's vision for the local area, consulting directly with the community. The council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*. In February 2014, the council adopted and included in its Corporate Plan the ethos of an "Ensuring

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Council” which steers the way that the council connects with and acts on behalf of the area and its citizens

- A performance management framework which establishes clear priorities, objectives and plans of action at corporate, service, team and individual levels
- Performance management systems which measure and monitor the quality of services delivered and provide elected members and officers with the information to help ensure that they are delivered in accordance with the authority’s objectives.
- Arrangements for the executive to manage performance through the Corporate Management Team and portfolio performance review meetings.
- Review and challenge of performance through the overview and scrutiny function and particularly via the Budget & Performance Panel.
- The council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by service managers, the overview and scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.
- The council’s *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The council’s commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are set out through the *Anti-Fraud, Bribery and Corruption Policy*, the *Raising Concerns at Work Policy* and the council’s *Complaints Policy*.
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the council’s key priorities and objectives. Rules for financial management and the scheme of delegation of the council are set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The council’s Audit Committee is charged with overseeing and, independently of the Executive and overview and scrutiny function, providing the council with assurance of the adequacy of its corporate governance arrangements, including the risk management framework and the associated control environment.
- Internal Audit are in the process of developing the Council’s wider assurance framework with a view to ensuring that assurances from all relevant sources are captured, reviewed and reported as appropriate. In addition to this, the Internal Audit and Assurance Manager is reviewing and revising the council’s Risk Management Strategy.
- Until 29<sup>th</sup> February 2016, the Chief Officer (Governance) was the council’s designated Monitoring Officer. However, following this Officer’s retirement, Council at its meeting on the 03 February 2016 designated the Deputy Monitoring Officer, as Monitoring Officer with effect from the 01 March 2016. The Monitoring Officer has responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to

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full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of councillors and co-opted Members.

- The Cabinet is responsible for taking key decisions in line with the council's overall budget and policy framework; individual Cabinet members are responsible for taking non-key decisions. Any key decisions outside of the budget and policy framework are referred to Full Council. The council publishes details of key decisions which are to be made on behalf of the council by Cabinet and by senior officers under their delegated powers.
- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer (Section 151 Officer).
- The council aims to identify and meet the development needs of both elected members and officers.
- The *Code of Corporate Governance* sets out the council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The council's internal audit service is delivered by an in-house team required to take account of professional standards set out in the '*Public Sector Internal Audit Standards*'. The council has also set out a commitment to maintain an objective and professional relationship with its external auditors and other statutory inspectors.

### REVIEW OF EFFECTIVENESS

Lancaster City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit & Assurance Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The following are the main processes applied in maintaining and reviewing the systems of internal control and governance and the key factors influencing their effectiveness:

- The council's Audit Committee and the Monitoring Officer have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. It is a function of full Council to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972. To support and reinforce this role, the authority'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 Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via portfolio performance review meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The council promotes and maintains high standards of conduct by its elected members in accordance with the adopted Code of Conduct and the requirements of the Localism

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Act 2011. The Standards Committee has a role to provide assistance and advice to the council in this respect, and to deal with complaints of breaches of the Code of Conduct.

- The senior management structure has continued to develop, and aspects of the council's constitution, such as the scheme of delegation, have been updated to reflect this.
- It has been recognised that the diverse political makeup of the council, set in the context of the council's current democratic model (Cabinet and Scrutiny) can inhibit achieving consensus in the decision making process. Managing these pressures and maintaining efficiency in decision-making remains an important consideration as the period of austerity and ongoing budgetary constraints continues.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan.
- Internal Audit operates in accordance with the CIPFA statement on "the role of the head of internal audit in public service organisations" (2010) and is responsible for providing assurance on the effectiveness of the council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and inspect Internal Audit work.
- The Internal Audit and Assurance Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the council's systems of internal control.
- In October 2015 the council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's financial statements for 2014/15. They also provided an unqualified conclusion on the council's arrangements for securing value for money and reported that they were "...satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.". The external auditors made no high priority recommendations as a result of their 2014/15 audit work.
- Following the audit of the 2015/16 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30<sup>th</sup> September 2016.
- The work carried out by both the council's external and internal auditors has indicated that effective internal financial controls exist within the council's main financial systems to ensure the accuracy and integrity of the information they provide.

### SIGNIFICANT GOVERNANCE ISSUES

Four ongoing governance issues were highlighted in the 2014/15 Governance Statement. These are updated as follows:

- **Information management and governance arrangements**

It has been identified that the Council needs to develop and improve its standards of information governance generally throughout the organisation. A self-assessment of the Council's position concluded that corporately, resources and arrangements devoted to information management were insufficient to maintain appropriate standards into the future. Proposals to expand and develop the in-house corporate information governance function were approved by Cabinet in September 2015 and are in the process of being implemented.

- **Democratic structures and cultural aspects of governance**

Following the Council elections in May 2015 there remains a position of no overall control, but with the executive in the hands of a single party Cabinet. Budgetary constraints from the ongoing period of austerity and the associated increasing pressures in terms of resources and capacity, continue to present a significant factor and challenge.

Together, these factors require that democratic processes continue to operate efficiently and effectively and provide an environment in which all elected members, officers, and partners are able to develop and operate positively with mutual trust and respect, whilst fostering a healthy culture of challenge and confident decision making.

- **Performance management, risk management and assurance**

In the face of increasing resource pressures and the consequent process of change required, the council recognises the need to continually review its performance management and risk management processes as a contribution to effective governance and to ensure the delivery of value for money. A revised corporate performance management framework has been approved and is being implemented.

There is a recognition that, in appropriate circumstances, the Council needs to be more risk embracing and less risk averse than in recent years. Arrangements are underway to develop and implement a revised risk management strategy which embraces this change in outlook and to develop an assurance framework which provides the council with confidence that its key risks and activities are being effectively managed.

- **Senior management changes**

The council's current Chief Executive is retiring at the end of June 2016 after some 16 years in post. In responding to the announcement of his retirement, the council was presented with a significant governance challenge to ensure it had effective and efficient future senior management arrangements to take forward the council and its plans and priorities. The ensuing recruitment process has concluded in the appointment of a new Chief Executive who is due to take up the post on 1<sup>st</sup> July 2016.

The Chief Officer (Governance) was the council's designated Monitoring Officer up until her retirement on 29<sup>th</sup> February 2016. Council at its meeting on the 03 February 2016 designated the Deputy Monitoring Officer, as Monitoring Officer with effect from the 01 March 2016. Recognising that this officer is not legally qualified, an agreement has been reached with Preston City Council for them to

provide legal support. This arrangement is now in place, a contract being drawn up, and the situation is to be reviewed in the following months.

Alongside the above, interim appointments have been made to the Head of Legal Services and Head of Human Resources positions, to ensure the provision of effective legal and HR support services to the Council. In connection with the issue regarding information governance, the interim Head of Legal Services will fulfil the role of Senior Information Risk Owner (SIRO).

The following new issues have arisen during the 2015/16 year and in the period up to production of this statement:

- **Regional Funding Issues**

The direct implications for the council of reduced government funding have been recognised in both this and previous years' governance statements. During 2015/16 the council has felt the additional impacts and pressures arising from significant budget and service reductions made by other public sector organisation including Lancashire County Council.

- **Lancashire Combined Authority**

In April 2016, following public consultation, the council has agreed to become a constituent member of the combined authority for Lancashire. Leaders from the constituent authorities have developed ambitions for Lancashire. They have recognised that some of these ambitions can be delivered through the existing partnership arrangements in place across the County. However, in order to attract and maintain economic growth and achieve a prosperous Lancashire for all, there is a need to demonstrate that Lancashire means business and to provide reassurance that collectively there are strong, robust governance arrangements in place and a commitment to work together.

- **Impact of Storm Desmond**

In common with large sections of Cumbria and North Lancashire, the council's area was severely affected on 5<sup>th</sup> December 2015 by Storm Desmond (with further albeit lesser impact from the later Storm Eva). The impact of Storm Desmond on Lancaster District was significant. Dealing with the emergency and recovery phases presented a steep learning curve for the City Council but, built onto the existing foundation of civil contingency planning already adopted by the City Council, the experience will make the handling of future events easier.

The key role to be played by the City Council in both emergency and recovery phases became evident, even though the County Council remains the Lead Flood Authority. It became clear that the resources, knowledge and skills of the City Council proved invaluable in assisting the community into recovery. Inevitably, however, the demands on resources in both the emergency response phase and the (ongoing) recovery phase have impacted on the council's abilities to deliver its plans in a number of areas.

- **Staffing Resources and Capacity**

Alongside the consequences being felt from the changes in Senior Management, reported above, the council is feeling the impact of the loss of experience and knowledge in a variety of positions throughout the workforce. Allied to this, and exacerbating the situation, are difficulties being experienced in recruiting and retaining staff in a number of key positions. Work is ongoing to resolve these issues and mitigate the impacts.

- **National politics**

The climate of political uncertainty at a national level in the immediate aftermath of the country's referendum decision to withdraw from the European Union represents a new and unpredictable external factor for the council.

Once again, the council's overriding challenge continues to be that of ensuring that the council and its partners can identify and meet the needs of the district's citizens, whilst responding to current and future financial constraints. The need to reduce services, be more efficient and generate more income is therefore expected to increase and over the coming year, a range of major service reviews will have to be considered.

It is recognised that this challenge requires ongoing attention to maintain and improve standards of governance and continuous review will be necessary in key areas including:

- Developing the ways in which the council formulates its plans and priorities, enabling local people to be at the forefront of decision making, whilst raising awareness of the limitations imposed by financial constraints;
- Continuing to develop and put into practice the council's vision and ethos as an Ensuring Council;
- Strengthening services through the continuing development of both the workforce itself and of the organisation's leadership and management values and practices, including those relating to financial management.

The council proposes, over the coming year, to take steps to address the above matters to further enhance its governance arrangements. The council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next governance review.

Once finalised, the Annual Governance Statement will be signed off by the following Members and Officers of the City Council:

**Leader of the Council**

**Chief Executive**

**Monitoring Officer**

**Section 151 Officer**