LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

ITEM OF URGENT BUSINESS

Audit Committee

Wednesday, 16 September 2015

AUDIT COMMITTEE

Review of Governance and the Annual Governance Statement 2014/15
16 September 2015

Report of the Chief Executive

PURPOSE OF REPORT

To seek the Committee's approval for the draft Annual Governance Statement for the 2014/15 financial year.

This report is public

RECOMMENDATIONS

(1) **That the draft Annual Governance Statement for 2014/15 (attached as Appendix B) is approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.**

1.0 Introduction

1.1 The terms of reference of the Audit Committee include: *To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted Code of Governance. Also to oversee the production of the authority's annual Governance Statement in accordance with the Accounts and Audit (England) Regulations 2011 and recommend its adoption.* (The Constitution, part 3 section 8).

2.0 Report

2.1 In relation to the production of a Governance Statement, "proper practices" are defined as those set out in a framework and guidance issued by CIPFA & SOLACE[1] during 2007, applying from the 2007/08 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (the current version was approved by Audit Committee on 19th September 2012) and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

---

[1] "Delivering Good Governance in Local Government" – CIPFA & SOLACE 2007

3.0   Proposal Details

<u>Review of Compliance with the Code of Governance</u>

3.1   A review has been undertaken of the Council's position and performance against the Code of Governance approved in September 2012. The results of the evaluation exercise are demonstrated in the Overview Chart and the Evaluation Summary which are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.

3.2   The Code of Corporate Governance consists of a set of seventy-eight elements within the following six core principles, which underpin a council's system of governance:

1.   **Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.**

2.   **Members and officers working together to achieve a common purpose with clearly defined functions and roles.**

3.   **Promoting the values of the authority and demonstrating the values of good governance through behaviour.**

4.   **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**

5.   **Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively.**

6.   **Engaging with local people and other stakeholders to ensure robust local public accountability.**

Assurance

3.3   A document compiled to detail the identified "sources" of assurance for each element of the Code has again been updated. Sources of assurance range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings.

3.4   Individual "assurance statements" have been sought from managers at the level immediately below Chief Officer level, in relation to internal control and governance arrangements within their areas and this assurance has been built in to the overall evaluation. These statements have also been reviewed individually by the relevant Chief Officers. This part of the exercise did not identify any further significant governance issues to be disclosed in the Governance Statement.

3.5   The Internal Audit Manager's Annual Report and Assurance Statement for 2014/15 was considered by the Audit Committee on 17th June 2015. The report concluded that the Authority had a significant ongoing governance issue in relation to its information management arrangements and that this should be disclosed in the Governance Statement. No other significant issues for disclosure were identified.

<u>Annual Review of Internal Audit</u>

3.6   An annual review of Internal Audit, which provides an update on the position regarding Internal Audit's compliance with the *Public Sector Internal Audit Standards (PSIAS)* is dealt with in a separate report elsewhere on this agenda.

3.7   Taking account of the conclusions from the review, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can

place reliance on its reports and work in considering the overall effectiveness of governance arrangements. The review has not identified any issues meriting disclosure in the Governance Statement. The current position regarding compliance with the PSIAS is reflected in the draft Governance Statement.

Governance Review - Evaluation Results

3.8 The Code of Governance comprises seventy-eight elements and the overall position is that there have not been any dramatic changes in the evaluation over the last year.

3.9 The number of factors demonstrating a perceived shortfall in performance is 12, an increase of 5 on the number identified in the 2013/14 review. There is no factor with a perceived shortfall of more than one point. Where a shortfall exists, comments/conclusions are included in the evaluation on the current position on any plans to improve arrangements during 2015/16 and beyond.

3.10 In reviewing the results of the evaluation, Management Team have judged that the Governance Statement should acknowledge the following events which occurred after the 2014/15 financial year, but which will present governance challenges in the current and future years:

- Changes in the democratic makeup of the Council following the local elections in May 2015; and

- The recent announcement by the Chief Executive of his intention to retire in June 2016.

The Draft Annual Governance Statement

3.11 Following the evaluation exercise, the Annual Governance Statement attached at Appendix B has been drafted.

3.12 The timescale for the production of the Statement coincides with that for the approval of the audited financial accounts (i.e. 30 September 2015) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:

1. Scope of Responsibility

2. The Purpose of the Governance Framework

3. The Governance Framework

4. Review of Effectiveness

5. Significant Governance Issues

Signatories to the Statement

3.13 The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the Section 151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

4.0   Details of Consultation

4.1   As part of the assurance gathering exercise, senior managers have provided an assurance statement for their areas of responsibility, with any matters raised being considered by Management Team and built in to the evaluation exercise.

5.0   Options and Options Analysis (including risk assessment)

5.1   As the production of an annual statement is a legislative requirement, no alternative options are identified.

6.0   Conclusion

6.1   The draft Annual Governance Statement and the results of the review reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute towards a further improved position for 2015/16.

**CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.
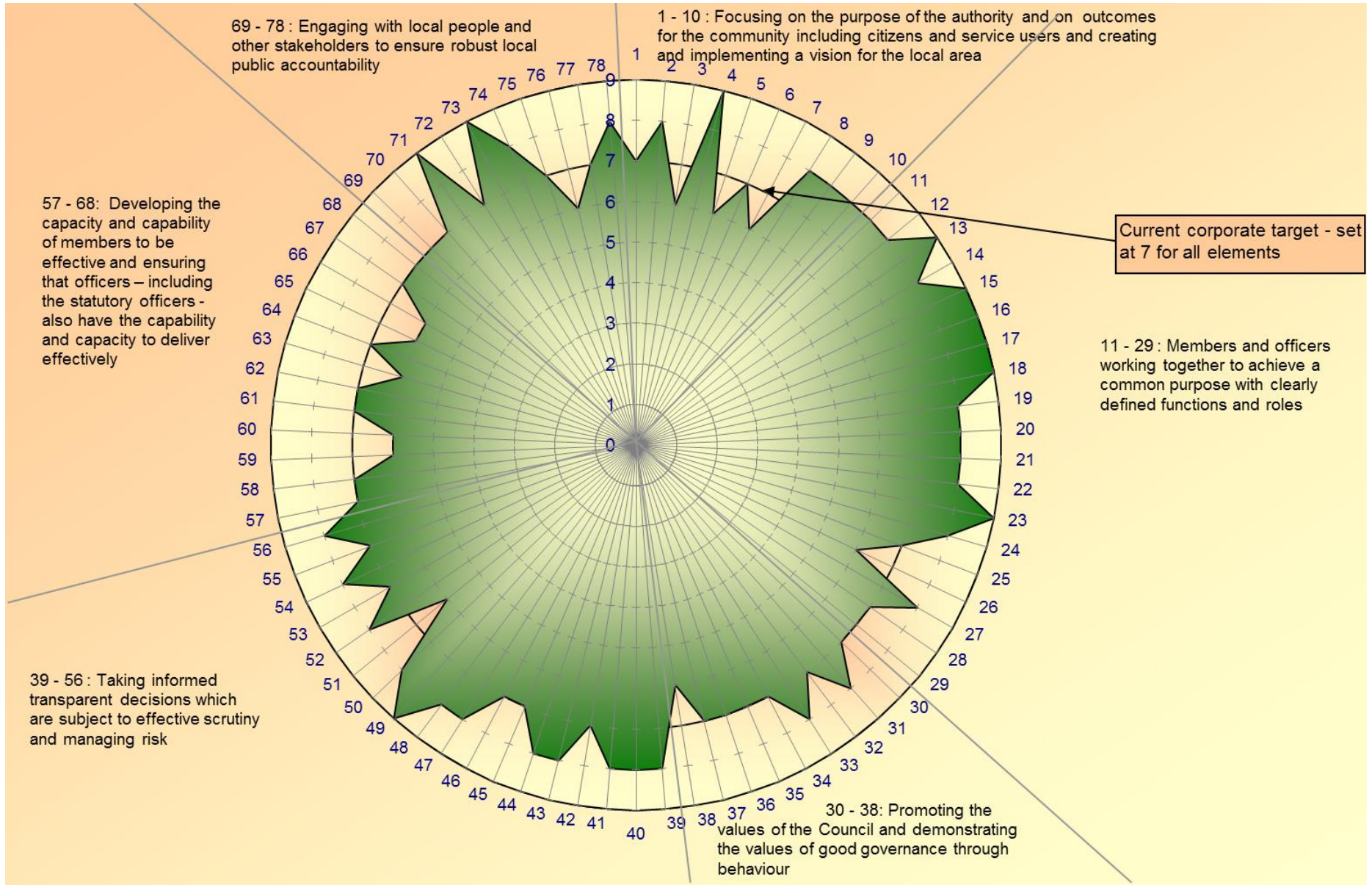
LEGAL IMPLICATIONS

There are no legal implications arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS	**Contact Officer:** Derek Whiteway **Telephone:** 01524 582028 **E-mail:** dwhiteway@lancaster.gov.uk **Ref:** aud/cttee/audit/2014/150916/AGS

69 - 78 : Engaging with local people and other stakeholders to ensure robust local public accountability

1 - 10 : Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

57 - 68: Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively

Current corporate target - set at 7 for all elements

11 - 29 : Members and officers working together to achieve a common purpose with clearly defined functions and roles

39 - 56 : Taking informed transparent decisions which are subject to effective scrutiny and managing risk

30 - 38: Promoting the values of the Council and demonstrating the values of good governance through behaviour

Annual Governance Review 2014/15 – Evaluation Summary

Elements where the evaluation falls below the target level of 7 are highlighted in yellow

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

No	Element	Score	Comments/Conclusions
1	Developing and promoting the authority's purpose and vision	7	
2	Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements	8	
3	Encouraging partnerships of which the Council is a member to be underpinned by a common vision of their work that is understood and agreed by all partners	6	Whilst no obvious weaknesses have been identified in current arrangements, there is an ongoing need to focus on establishing and maintaining a common vision within partnerships. This need is emphasized as the Council and partners seek to manage more and more pressing resource issues and as the Council seeks to develop its Ensuring Council ethos..
4	Publishing annual accounts on a timely basis to communicate the Council's activities and achievements, its financial position and performance	9	
5	Deciding how the quality of service for users is to be measured and making sure that the information needed to review service quality effectively and regularly is available.	6	There is limited measurement of service quality and there is a recognized need to develop proportionate, robust and relevant quality measures through the ongoing development of the Performance Management Framework and the related system, CorVu. (See also element number 7 and 26)
6	Putting in place effective arrangements to identify and deal with failure in service delivery	7	
7	Deciding how value for money is to be measured and making sure that the Council and its key partnerships have the information needed to review value for money and performance delivery.	6	See element number 5

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

No	Element	Score	Comments/Conclusions
8	Ensuring that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use	8	
9	Ensuring that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary	8	
10	Ensuring compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code	8	

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles

No	Element	Score	Comments/Conclusions
11	Setting out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the Council's approach towards putting this into practice	8	
12	Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers	8	
13	Ensuring that the Chief Finance Officer (CFO) (also known as the s151 Officer) reports directly to the Chief Executive and is a member of the leadership team with a status at least equivalent to other members.	9	
14	Determining a scheme of delegation and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council, taking account of relevant legislation, and ensuring that it is monitored and updated when required	8	
15	Making the Council's Chief Executive (CE) responsible and accountable to the Council for all aspects of operational management	9	
16	Ensuring that the authority's governance arrangements allow the CFO direct access to the CE and to other leadership team members	9	

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles

No	Element	Score	Comments/Conclusions
17	Having arrangements in place for the Leader of the Council and the Chief Executive to discuss their respective roles early in the relationship and to maintain a shared understanding of roles and objectives	9	
18	Making the Chief Officer (Resources) (as CFO/s151 officer) responsible to the Council for 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	9	
19	Appointing a professionally qualified CFO whose core responsibilities include those set out in the Statement on the Role of the CFO in Local Government and ensure that they are properly understood throughout the authority	8	
20	Ensuring that the CFO : ▪ leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively ▪ has a line of professional accountability for finance staff throughout the organisation	8	
21	Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance	8	
22	Ensuring that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role	8	
23	Making the Head of Governance (as Monitoring Officer) responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	9	
24	Having protocols in place to ensure effective working relationships between members and officers in their respective roles	8	
25	Setting out the terms and conditions for remuneration of members and officers and having an effective structure for managing the process including an independent remuneration panel for elected members.	7	

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles

No	Element	Score	Comments/Conclusions
26	Ensuring that effective mechanisms exist to monitor service delivery	6	The approach to monitoring service delivery varies across the council, with different arrangements in place for service level performance monitoring. The quality and appropriateness of performance measures are also variable and work is ongoing to refine, rationalise and/or improve measures and the consequent quality, relevance and use of performance data (see also element no 5).
27	Ensuring that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	8	
28	Establishing a medium term business and financial planning process to deliver strategic objectives including: ▪ A medium term financial strategy to ensure sustainable finances ▪ A robust annual budget process that ensures financial balance ▪ A monitoring process that enables this to be delivered And ensure that these are subject to regular review to confirm the continuing relevance of assumptions used	7	
29	When working in partnership, ensuring that: ▪ members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council; ▪ there is clarity about the legal status of the partnership; ▪ representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles; and ▪ representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.	7	

Principle 3 - Promoting the values of the Council and demonstrating the values of good governance through behaviour

No	Element	Score	Comments/Conclusions
30	Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect	7	
31	Having Codes of Conduct in place to ensure that the standards of conduct and personal behaviour expected of members and staff are defined and communicated	8	
32	Having protocols in place to ensure that standards for joint working between members and staff and between the Council (members/officers), its partners and the community are defined and communicated	7	
33	Having arrangements in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and having in place appropriate processes to ensure that they continue to operate in practice	8	
34	Developing and maintaining shared values including leadership values both for the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners	7	
35	Having arrangements in place to ensure that systems and processes, including those for financial administration, financial control and protection of the authority's resources and assets, are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice	7	
36	Maintaining an effective standards committee	7	
37	Using the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council	7	
38	In pursuing the vision of a partnership, agreeing a set of values (to be demonstrated both individually and collectively by partners) against which decision making and actions can be judged	6	See element number 3.

Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk

No	Element	Score	Comments/Conclusions
39	Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall	8	

Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk

No	Element	Score	Comments/Conclusions
40	Ensuring an effective internal audit function is resourced and maintained	8	
41	Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	8	
42	Having arrangements in place to safeguard members and employees against conflicts of interest and having appropriate processes to ensure that they continue to operate in practice	7	
43	Maintaining an effective audit committee which is independent of the executive and scrutiny functions	8	
44	Ensuring that the authority's governance arrangements allow the CFO direct access to the audit committee and external audit	8	
45	Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints	7	
46	Ensuring that those making decisions, whether for the Council or one of its partnerships are provided with information that is fit for the purpose (i.e. is relevant, timely and gives clear explanations of technical issues and their implications)	7	
47	Ensuring the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority	8	
48	Ensuring the authority's governance arrangements allow the CFO to bring influence to bear on all material decisions	8	
49	Ensuring that advice is provided on the levels of reserves and balances in line with good practice guidance	9	
50	Ensuring that proper professional advice on all matters including those that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately	8	
51	Ensuring that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their jobs	6	There is a recognised need to develop the understanding of the Council's risk appetite in a variety of circumstances and to embed cost-effective and proportionate processes arrangements to manage risk.

Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk

No	Element	Score	Comments/Conclusions
52	Ensuring the authority's arrangements for financial and internal control and for managing risk are addressed in annual governance reports	8	
53	Ensuring the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorization and approval processes	7	
54	Having in place effective arrangements for whistle-blowing, to which officers, staff and all those contracting with or appointed to the Council have access	8	
55	Actively recognising the limits of lawful activity placed on the Council by, for example, the ultra vires doctrine but also striving to utilise available powers to the full benefit of its communities	7	
56	Observing all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular integrating the key principles of good administrative law, viz rationality, legality and natural justice, into procedures and decision making processes	8	

Principle 5 - Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively

No	Element	Score	Comments/Conclusions
57	Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	7	
58	Ensuring 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	7	Ongoing economic pressures and challenges arising from democratic changes in the Council have given rise to increased pressure on the capacity, in resource terms, of the statutory officers to meet the demands on their roles.
59	Ensuring the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role	6	

Principle 5 - Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively

No	Element	Score	Comments/Conclusions
60	Reviewing the scope of the CFO's other management responsibilities to ensure financial matters are not compromised	6	The Chief Officer (Resources) has taken on responsibility for Revs & Bens Shared Service, Customer Services, ICT and Property Shared Service. Whilst current arrangements have not given rise to any specific concerns, it must be appreciated that, at certain times, when financial matters must take priority, this may have an impact on the officer's other responsibilities.
61	Providing the finance function with the resources, expertise and systems necessary to perform its role effectively	7	
62	Assessing the skills required by members and officers and making a commitment to develop those skills to enable roles to be carried out effectively	7	
63	Embedding financial competencies in person specifications and appraisals	6	The embedding of financial competencies, alongside other managerial competencies, is being taken forward as part of the management development programme.
64	Ensuring that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities	7	
65	Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	6	With staffing resources under increasing pressure, the need to continually develop skills and competencies is well recognised. Similarly, following the 2015 election there is a need to develop the skills of elected members in all areas of the democratic structure, including the executive and overview and scrutiny.
66	Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members	6	
67	Having effective arrangements in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council	7	
68	Ensuring that effective Member development and employee development strategies and actions are in place	7	

Principle 6 - Engaging with local people and other stakeholders to ensure robust local public accountability

No	Element	Score	Comments/Conclusions
69	Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom	7	
70	Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships	7	
71	Producing an annual report on the activity of the scrutiny function	9	
72	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and having effective monitoring arrangements in place	7	
73	Holding meetings in public unless there are good reasons for confidentiality	9	
74	Having arrangements in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	8	
75	Operating a clear policy on the types of issues the Council will meaningfully consult on or engage with the public and service users about. This includes a feedback mechanism for consultees to demonstrate what has changed as a result	7	
76	Publishing an annual performance plan giving information on the Council's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	6	The production of an annual performance plan was formerly a statutory requirement which no longer remains. Notwithstanding this, the Council has recognised the importance of being clear about its plans and priorities and its performance in delivering them.
77	Ensuring that the Council as a whole is open and accessible to the community, service users and its staff and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	7	
78	Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making	8	

LANCASTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT 2014/15

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 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 2015 and up to the date of approval of the *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 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 required to 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.

- The Chief Officer (Governance) is the council's designated Monitoring Officer, with 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 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 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 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 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 2014 the council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's financial statements for2013/14. 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 2013/14audit work.

- Following the audit of the 2014/15 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30th September 2015.

- 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

Two governance issues were highlighted in the 2013/14 Governance Statement. These are updated as follows:

- **Information management and governance arrangements**

  A significant body of work has been undertaken by the ICT Service to meet organisational and technical requirements relating to the Government's Public Service Network (PSN). This resulted in the Council receiving full certification on 9 February 2015, valid until 9 February 2016.

  Whilst addressing ICT related issues to meet the requirements of PSN, it was 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. Therefore, proposals are in progress to expand and develop the in-house corporate information governance function, with managerial responsibility for Information Governance transferring to the Internal Audit Manager.

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

  In recent years, attention has been drawn to the challenges posed by having a "no overall control" council and the increased pressures from the continued period of austerity. Following elections in May 2015 almost half of the new Council are new councillors. There remains a position of no overall control, but with the executive in the hands of a single party Cabinet. Budgetary pressures from the ongoing period of austerity remain a significant factor and challenge.

  Together, these factors continue to present a need to ensure that democratic processes remain efficient and effective 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.

The following has re-emerged as a significant issue over the past year:

- **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. This encompasses: plans to implement a revised corporate performance management framework; measures to assess risk appetite and raise levels of awareness and competence in the management of risk; and an assurance framework which provides the Council with confidence that its key risks and activities are being effectively managed.

The following new issue, whilst coming to the fore after the 2014/15 financial year, will present a significant challenge over the coming twelve months and beyond:

- **Senior management changes**

  The council's current Chief Executive has recently announced his intention to retire in June 2016 after some 15 years in post. In responding to this news, the council is presented with a significant governance challenge to ensure it has effective and efficient future senior management arrangements to take forward the council and its plans and priorities.

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.

E Blamire
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Chief Officer (Governance)
Monitoring Officer

N Muschamp
Chief Officer (Resources)
Section 151 Officer