

LANCASTER CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2008/09

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, Lancaster City Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates 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 Lancaster City Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 (as amended) in relation to the publication of a statement on internal control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

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 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 2009 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

THE GOVERNANCE ENVIRONMENT

The following paragraphs set out the key elements of the Council's governance arrangements as incorporated in the *Code of Corporate Governance*:

- The Council reviews its vision for the local area annually in the context of the Local Strategic Partnership's *Sustainable Community Strategy* and through direct consultation with the community. The Council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.
- The Council's performance management framework is established to measure and monitor the quality of services for users and to ensure that they are delivered in accordance with the authority's objectives. Performance is driven by the *Corporate Plan* priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- Performance is actively managed by the executive through the Performance Management Group and quarterly Performance Review Team meetings and is subject to review and challenge by the Overview & Scrutiny function 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 Cabinet's Star Chamber, 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 maintained through the *Anti-Fraud and Corruption Policy and Strategy*, the *Whistleblowing Policy* and the Council's *Comments, Compliments and Complaints Policy*.
- The Head of Financial Services has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.
- The Council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the Council's key priorities and objectives. The financial management and scheme of delegation of the Council is conducted in accordance with rules 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 established to monitor the effectiveness of risk and financial management arrangements and undertakes all recognised core functions of an audit committee.

- The Head of Legal and Human Resources Services 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 facilitation of policy and decision making, in line with the Council's overall budget and policy framework, is established through the Council's Cabinet, with any key decisions (as defined in the *Constitution*) outside of this framework being referred to the Council as a whole. The Council publishes a *Forward Plan* containing details of key decisions 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.
- Processes are in place to identify the development needs of both elected members and officers. Corporate training programmes are developed and delivered annually in addition to individual service training budgets to meet more specific, specialist needs.
- 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 *Risk Management Policy and Strategy* sets out the framework for managing risk throughout the Council. Senior officers of the Council have primary responsibility to effectively manage strategic and operational business risks relating to their service areas. The Risk Management Steering Group oversees and promotes risk management practices and the Council's Audit Committee is responsible for monitoring the effectiveness of risk management within the Authority.
- The Council's Internal Audit service operates to the standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2006*' and the Council has established 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 Head of Internal Audit'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 effectiveness of the systems of internal control and governance:

- The Audit Committee and the Head of Legal and HR Services, in her role as the Council's 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. A function of full Council is to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- 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 quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The Council's Standards Committee, chaired by one of four independent representatives, is responsible for promoting, reviewing and monitoring adherence with standards of conduct for elected members. The Committee conducts hearings in respect of any matters referred for investigation by its Assessment Sub-Committees.
- 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 agrees and monitors the external audit plan
- Internal Audit 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 regularly 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.
- During 2008/09 the Audit Commission undertook, at the Council's request, a review of its Comprehensive Performance Assessment (CPA). This resulted in the Council being assessed as 'Good' (the second highest rating) compared with 'Fair' when the previous assessment was made in 2004. Notwithstanding this improvement, the review identified further areas for improvement which are to be addressed through the implementation of the Corporate/Service Business Plans.
- In March 2009 the Council's external auditors, KPMG in their *Annual Audit and Inspection Letter*, reported that the Council had made good overall progress in delivering its priorities and that services were improving at a faster rate than other councils. The auditors concluded that the Council had adequate arrangements in place for securing value for money. The auditor's views drew on their assessments of the Council's "Direction of Travel" and "Use of Resources", in which they judged the Council to be "consistently above minimum requirements – performing well".
- In their *Audit and Inspection Letter*, the external auditors advised the Council on areas where action was needed, including its efficiency programme; effective partnership working in health initiatives; managing levels of sickness absence; and improving public satisfaction levels. These have been taken into account in developing the Council's improvement plans.

SIGNIFICANT GOVERNANCE ISSUES

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 and no significant control weaknesses have been brought to the Council's attention.

That said, as a result of the Icelandic Banking collapse during 2008/09 the Council has £6M of investments at risk; more detailed information is included within the Statement of Accounts. National reviews of the situation, including governance aspects, have been undertaken by the Audit Commission and by Government Select Committees. This process is still underway to an extent; many recommendations have been made for various parties to take forward, but it is not yet clear what specific actions the Council will need to take in connection with any new regulations and/or guidance arising. For the interim, however, further controls were adopted by the Council in March 2009, as part of approving its 2009/10 treasury strategy.

Given these points, and from the assurances provided from the review of the effectiveness of the systems of the corporate governance framework and system of internal control, it is the Council's opinion that they accord with current proper practice and are working effectively.

Whilst the Council has received praise from the Audit Commission and other external inspectors and peers it is recognised that more needs to be done in order to address any significant issues affecting the Council and to ensure continuous improvement of governance controls, and to that end the Council will:

- **Improve decision making** by undertaking a further review of executive portfolios and Democratic Renewal and by reviewing and further developing the Council's performance management arrangements.
- **Continue to improve the Value for Money**; the Council and its key partnerships provide, through a review of the *Value for Money Strategy* and the implementation of a *Corporate Improvement and Efficiency Plan*.
- **Continue to strengthen delivery of customer-focussed services** by continuing the programme of service integration into the Council's Customer Service Centres and by continuing to improve how the Council undertakes consultation and community engagement, thereby contributing to more focussed business planning and allocation of resources.
- **Continue to develop the effectiveness of partnership working** by rolling out a programme reviewing and evaluating the governance arrangements of the Council's key partnerships.
- **Improve the measurement and monitoring of the environmental impact** of the Council's policies, plans and decisions.
- **Strengthen the capacity to deliver and improve services** through the implementation of a *Workforce Planning and Development Strategy* and improving the Council's programme management arrangements.
- **Implement any changes required to the Council's Treasury Management framework**, in responding to any new regulations and guidance that are issued following the Icelandic banking collapse.

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 annual review.

S Langhorn
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)