

# AUDIT COMMITTEE

## Annual Governance Statement 2020/21

21 July 2021

### Report of Chief Finance Officer

#### PURPOSE OF REPORT

To approve the draft Annual Governance Statement (AGS) for 2020/21 for inclusion in the Annual Statement of Accounts following a review of the Council's governance arrangements.

**This report is public**

#### RECOMMENDATIONS

- (1) To approve the Annual Governance Statement (AGS) for 2020/21 and be recommended for adoption and for signing by the Chief Executive and the Leader of the Council.

#### 1.0 Introduction

- 1.1 The AGS is a valuable means of communication. It enables an authority to explain to the community, service users, taxpayers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes.
- 1.2 In accordance with the Accounts and Audit Regulations 2015 the Council is required to prepare an AGS, which is published alongside the Statement of Accounts.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) jointly issued a Framework and guidance in relation to the AGS; 'Delivering Good Governance in Local Government'. The guidance urges local authorities to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the corporate governance and internal control framework of an organisation.
- 1.4 The Framework recognises that effective governance is achieved through seven core principles.
- A. **Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;**
  - B. **Ensuring openness and comprehensive stakeholder engagement;**
  - C. **Defining outcomes in terms of sustainable economic, social, and environmental benefits;**
  - D. **Determining the interventions necessary to optimise the achievement of the intended outcomes;**
  - E. **Developing the entity's capacity, including the capability of its leadership and the individuals within it;**

- F. Managing risks and performance through robust internal control and strong public financial management; and**
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

**2.0 Proposal Details**

- 2.1 The draft AGS for 2020/21 is attached at Appendix A. Owing to the COVID-19 pandemic, the usual formulation of this document was unable to take place. However, Microsoft Teams was used to ensure all key officers were given the opportunity to provide information and key evidence to support how the organisation has complied with the principles set out in paragraph 1.4 above during the year.
- 2.2 The timescale to produce the AGS coincides with that for the approval of the audited financial accounts. The AGS must be approved at a meeting of the Council or delegated committee, in this case, the Audit Committee.
- 2.3 The Leader of the Council and the Chief Executive will be asked to sign the AGS certifying that they are aware of the governance issues within the Authority and of the measures that are needed to mitigate them.

**3.0 Details of Consultation**

- 3.1 Members of the Executive Team and other key officers across the Council have had the opportunity to participate in the formulation of this document. In addition, Service Managers have completed assurance mapping statements to support the AGS and these have been reviewed and signed by the appropriate Director.

**4.0 Options and options analysis (including risk assessment)**

- 4.1 As the production of a draft AGS is a legislative requirement, no alternative options are identified.

**5.0 Conclusion**

- 5.1 The draft AGS and the results of the review reflect the developments and issues impacting the Council’s governance arrangements during the last twelve months. Addressing the significant issues identified in the statement will help ensure the Council maintains and improves its standards of governance in the future.

**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**

None arising directly from this report.

**OTHER RESOURCE IMPLICATIONS, SUCH AS HUMAN Resources, Information Service, Property, Open Spaces:**

None arising directly from this report.

**SECTION 151 OFFICER’S COMMENTS**

The Section 151 Officer has authored this report in his capacity as Chief Finance Officer

**LEGAL IMPLICATIONS**

The Head of Legal Services has been consulted and their comments have been incorporated.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and their comments have been incorporated.

**BACKGROUND PAPERS**

N/A

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# Annual Governance Statement

## 2020/21

### INTRODUCTION AND ACKNOWLEDGEMENT OF RESPONSIBILITY

Lancaster City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

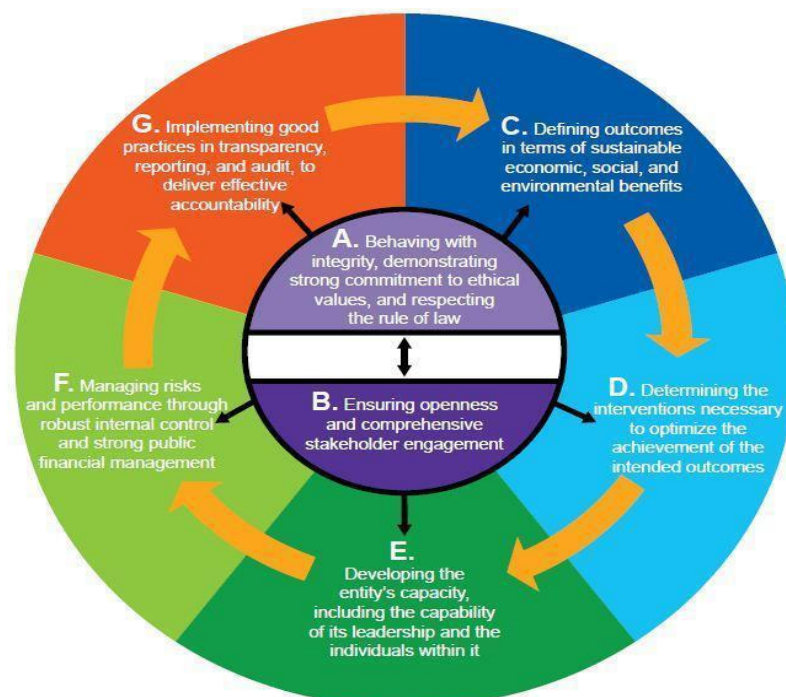
To meet our responsibility, we have put in place proper governance arrangements for overseeing what we do. These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in a timely, open and accountable manner. These arrangements consist of all the systems, processes, culture and values which direct and control the way in which we work and through which we account to, engage with and lead our communities.

The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, require the council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review with the Statement of Accounts.

### THE GOVERNANCE FRAMEWORK

We have approved and adopted a Code of Corporate Governance, which sets out the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016) (The Framework). The Framework contains seven core interlinked principles detailed in table 1 below

Table 1. Principles for Delivering Good Governance in Local Government



The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

Key elements of the Council's governance framework are summarised below.

Table 2. Overview of the key elements of the Council's Governance Framework

<p><u>The Council, Cabinet and Leader</u></p> <ul style="list-style-type: none"> <li>• Provide leadership, develop strategy, and set policy</li> <li>• Engage with and support the Council's communities and neighbourhoods to thrive and succeed</li> </ul>	<p><u>Scrutiny and Review</u></p> <ul style="list-style-type: none"> <li>• The Overview and Scrutiny Committee reviews Council policy and can scrutinise and challenge decisions</li> <li>• The Budget and Performance panel reviews operational and financial performance</li> <li>• The Audit Committee reviews internal control, fraud, risk management and governance</li> </ul>
<p><u>Decision Making</u></p> <ul style="list-style-type: none"> <li>• Meetings are held in public</li> <li>• Agendas, minutes and decisions are recorded on the Council's website</li> </ul>	<p><u>Risk Management</u></p> <ul style="list-style-type: none"> <li>• Risk management strategy ensures proper management of risks</li> <li>• Risk registers identify both strategic and operational risk</li> </ul>
<p><u>Management Team and Statutory Officers</u></p> <ul style="list-style-type: none"> <li>• The Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading an effective corporate management team of Chief Officers to deliver the strategies within the policy framework set by Elected Members</li> <li>• The Council's Section 151 Officer is responsible for safeguarding the Council's financial position and ensuring value for money</li> <li>• The Head of Legal Services is the Council's Monitoring Officer, who is responsible for ensuring legality and promoting high standards of public conduct</li> </ul>	

## HOW WE COMPLY WITH THE CIPFA / SOLACE FRAMEWORK

The COVID pandemic has made 2020-21 a year of significant change and the Council has, wherever required, adapted existing governance arrangements as part of its response to the pandemic and plans for recovery. We have set out below, for each governance principle, our self-assessment of compliance in the year and highlighted where COVID has impacted governance arrangements and where this has actually been an opportunity to enhance and seek to sustain the benefits of these changes.

## THE COVID – 19 PANDEMIC

In order to support the wider Government response to the pandemic the Council both directly and acting as an agent for Government departments, delivered services in response to the pandemic and provided Financial Support to third parties including businesses within the area. This support has been significant and where appropriate has required the reallocation of staffing resources from business as usual to ensure the administration process used was sound and effectively undertaken as follows:

- Maintaining front line services- in accord with the Council's emergency and business continuity plans essential services continued to be delivered throughout the pandemic. Staff from non-essential services were reallocated to help deliver essential services or to deliver and support new pandemic related services- e.g., the community hub, the business hub. Furthermore, additional staff capacity was allocated to supporting the pan Lancashire work of the resilience forum.

- Supporting businesses - Rate relief together with grants for businesses in the retail, hospitality or leisure sector have to date helped out thousands of businesses with grants totalling £32.5M.
- Supporting residents – the Council has supported vulnerable residents and tenants through the community hub. With the help of volunteers, community groups and businesses, the Council contacted and supported 29,779 residents, and continues to reach out and offer support to those who are vulnerable. This support took many forms including provision of food, ongoing phone calls, pickup and delivery of medicines, commissioning of bereavement counselling, distribution of funds to help families with practical household needs. Additionally, the Council continues to work to proactively support rough sleepers. Residents who have serious underlying health conditions have been identified and there are processes in place to support this group.
- Put place ICT infrastructure so that staff can work remotely from home wherever possible, and providing office equipment, furniture to support that.
- Virtual Council meetings have taken place to maintain open and transparent decision making whilst observing social distancing.
- COVID-19 pages on the Council website are updated daily and provide further information see [Coronavirus information - Lancaster City Council](#)
- The Council's Internal Audit service has worked to ensure that awareness of fraud risk and appropriate systems of governance and internal controls have been maintained despite the changes in processes necessary to provide local people and businesses with rapid and effective support. Internal Audit has also provided assurance that Covid-19 funding provided by the Government has been used for the purpose intended. This work will continue into 2021/22.

The impact of the pandemic on the Council will be long term. It will affect our communities, business and residents in many ways and create significant resource implications for the Council and our partners. As the pandemic is still running its course it is not at this point possible to provide a detailed assessment of these wider impacts.

For the Council itself we have already seen significant financial impacts. Through increasing demand for services and a potential for reduction in income. The impact upon the long-term financial position is very difficult to accurately assess with key elements of the Statutory Accounts such as the Collection Fund (which manages Council Tax and Business Rate collection) severely impacted. The Government is allowing Councils to manage Collection Fund losses over a three-year period (2021/22 to 2023/24) to phase the impact of income lost in 2020/21 and allow time for collection to recover. If this recovery does not happen then there is a risk of the legacy of COVID having a more longer lasting financial impact on the Council.

Set out below is how the Council has specifically complied with the seven core principles set out in the CIPFA / SOLACE framework during 2020/21.

Table 3: Summary of Compliance and COVID impact against the Local Code of Corporate Governance

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> <li>• Code of Conduct for both members and staff</li> <li>• The Council's 'values and behaviours framework'</li> <li>• Registers of interest policies for both staff and members</li> <li>• Council and Committee minutes show any declarations made at meetings are viewable on each Councillor's record on the website</li> <li>• An electronic Gifts and Hospitality register for both staff and Members</li> <li>• Both Standards and Overview and Scrutiny Committees</li> <li>• There are policies and procedures in place for dealing with unacceptable behaviours for both officers and Members</li> <li>• Effective monitoring and review of counter fraud policies are in place and are monitored and reviewed annually by the Corporate Enquiry Team to ensure they are applied consistently</li> <li>• A 'Raising Concerns' Policy is in place and sits with the Council's Monitoring Officer</li> <li>• The Council complies with CIPFA's Role of the Chief Financial Officer and the role of the Head of Audit in Local Government</li> <li>• Training is provided for regulatory committees on a regular basis.</li> <li>• Compliance with specific legislation, law or guidance is documented in decision making documents</li> <li>• The Constitution includes terms of references, defines decision making powers and describes roles and functions</li> </ul>
COVID-19 Impact and Council response	<p>Council, Cabinet and Committee face to face meetings, were unable to be held in March 2020. Virtual meetings were introduced online in April and were compliant with access to information and public access requirements. Key decisions to be made by Cabinet from April continued without delay or deferment of Council business, with some decisions taken by the Leader/ Portfolio Holders as necessary. Plans for re-instating face to face council meetings from May 2021, are in place.</p> <p>We applied, wherever required, our statutory powers and our scheme of delegation to ensure continuity of core Council services and to deliver the emergency response and outbreak management activity at pace, in line with COVID related funding conditions and regulations. All such decisions and actual expenditure are recorded and evidenced.</p>

Principle B: Ensuring openness and comprehensive stakeholder engagement	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> <li>• The Council's Corporate Plan is published to all staff, elected members, partners and the community</li> <li>• An annual 'Narrative Report' is published and accompanies the Statement of Accounts</li> <li>• The Section 151 Officer publishes annual accounts within statutory deadlines to the community to report on the organisation's activities, achievements and its financial position and performance</li> <li>• The Council is compliant with the Local Government Transparency Code 2015</li> <li>• An Overview and Scrutiny and Budget and Performance Panel report is published annually</li> </ul>

	<ul style="list-style-type: none"> <li>• The Council publishes all key decisions on its website</li> <li>• A Freedom of Information publication scheme is in place</li> <li>• Standardised report pro-formas for decision making are in place and a published timetable of reporting deadlines for committees is published on-line</li> <li>• The Council ensures that appropriate consultation and engagement takes place</li> <li>• The Council publishes all current and closed consultations on its website</li> <li>• Customer feedback forms are in place in key outlets e.g. Salt-Ayre Leisure Centre</li> <li>• The Council has a Consultation Strategy 2018 – 2022 and an annual consultation plan</li> <li>• Participative democracy (People’s Jury) is being used to inform the Council’s strategy for dealing with climate change</li> <li>• The Council has a Community Connector team whose role is to engage and connect with partners, communities and elected members.</li> <li>• During the year virtual meetings and events for stakeholders and residents, chaired by Elected Members were held on a regular basis (sometimes several times per week).</li> <li>• The Council has several communication guidance documents in place e.g. the Intranet Policy and the Plain English and Style Guide</li> <li>• The Council complies with publication dates for reports and the ‘forthcoming decisions list (forward plan)</li> <li>• An up-to-date stakeholder database is in place</li> <li>• Robust arrangements are in place for both the shared service arrangements with Revenue and Benefits and the Corporate Enquiry Team</li> <li>• The Budget and Performance Panel was fully consulted in relation to the Council’s budget</li> <li>• The Council’s vision, strategic plans, priorities and targets are developed in consultations with the local community and other key stakeholders</li> </ul>
<p>COVID-19 Impact and Council response</p>	<p>We expanded our contribution to and collaboration with partner organisations to deliver a joined-up response to COVID through increased joint working in a wide variety of settings, notable examples are:</p> <ul style="list-style-type: none"> <li>• Developing and delivering coordinated policy and support for vulnerable citizens and those shielding, distributing food and household essential parcels to clinically extremely vulnerable people and those who needed it, through the community hub.</li> <li>• Supporting the national test and trace operation through our customer service centre.</li> <li>• Providing buildings to allow the delivery of the national testing system and the NHS vaccination program, as well as Nightingale Court.</li> <li>• Business engagement through the local Chamber of Commerce as well both the Morecambe and Lancaster BIDS and directly via the Business Grants helpline and through the business hub.</li> <li>• Contributing to the recourses of the Lancashire Local Resilience forum in particular specific role taken up by the Chief Executive and Head of Public Protection in addition to their existing duties. Contributory roles taken up by many other Council staff.</li> </ul>



Principle C: Defining outcomes in terms of sustainable, economic, social and environmental benefits	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> <li>• A revised suite of Corporate key performance indicators aligned to the new emerging priorities) are reported quarterly to Cabinet and the Budget and Performance Panel</li> <li>• A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements</li> <li>• There are effective arrangements in place to deal with failure in service delivery via the Council's corporate complaints procedure</li> <li>• The Medium-Term Financial Plan, Revenues Estimates and Capital Programme are designed to deliver the strategic priorities</li> <li>• The Council has a capital programme of works</li> <li>• The Council has an approved Capital Investment Strategy</li> <li>• Individual capital projects are equality impact assessed</li> <li>• All key decisions are required to consider fair access to services</li> <li>• The development and delivery of the local plan has been subject to external consultation</li> <li>• Procedures are in place to address conflicting interests e.g. the call-in procedure</li> <li>• The Council has declared a climate change emergency and has committed to becoming net carbon zero by 2030. A strategy has been developed to deliver on this</li> <li>• Formal decisions take into account and assessment of environmental impact, proportionate to the nature of the decision</li> </ul>
COVID-19 Impact and Sustainable Recovery Council response	<p>Lancaster District Plan 2030- Beyond the Crisis was approved by Cabinet in September 2020, to provide leadership on recovery from the pandemic and address challenges, uncertainty and new opportunities.</p> <p>Its overall aim is to deliver the Council's strategic priorities and to support recovery to a sustainable, safe and socially just District that is healthy, connected, empowered and enabled.</p> <p>The plan is delivered through 5 themed groups, all of which are interdependent-</p> <ul style="list-style-type: none"> <li>• Group 1- Climate Emergency</li> <li>• Group 2- Finance and Resources (internal focus)</li> <li>• Group 3a- Healthy and Happy Communities</li> <li>• Group 3b- Community Power and Resilience</li> <li>• Group 4- Regenerative and Distributive Economy</li> </ul> <p>The Plan is underpinned by principles that ensure the plan remains dynamic and flexible enough to respond to changes in need.</p>

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes	
Compliance Overview	<p>The key arrangements for managing performance and delivery, to inform interventions, continued to operate throughout the year. These included</p> <ul style="list-style-type: none"> <li>• Effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and consideration on which decisions are based</li> <li>• Member and Officer briefings took place for more complex areas of decision making</li> <li>• The MTFs, Revenue Estimates and Capital Programme are configured</li> </ul>

	<p>to meet the requirements of the Council Plan and Ambitions document and are published annually. They are key documents for forecasting budget requirements and planning ahead</p> <ul style="list-style-type: none"> <li>• The MTFs sets out the framework for corporately managing the Council's resources in the years ahead</li> <li>• Corporate Key Performance Indicators are in place and are reported quarterly to Cabinet and the Budget and Performance Panel</li> <li>• Both Capital and Revenue bids consider 'social value'.</li> <li>• Proper, professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making</li> <li>• The Council considers public surveys, demographic information and public health reports when developing the Council Plan</li> </ul>
<p>COVID-19 Impact and Council response</p>	<p>Progress against the COVID-19 Recovery Plan was reported to Cabinet in January 2021 and progress will continue to be reported in 2021/22, until recovery priorities and measures of success are integrated with future updates to the Council Plan. Reporting progress in January, at the time of the third national lockdown, meant there was a further re-prioritisation of corporate activity, and realignment of resources to respond to changing circumstances and shifting recovery priorities.</p> <p>A temporary scheme of delegation addressing decision making and spending during the pandemic was introduced in June 2020 to ensure each allocation of the Council's resources was carefully considered and approved.</p> <p>During the initial period of the pandemic monthly financial information was provided to both Cabinet &amp; B&amp;PP. A transition to more standard ways of working took place for the final quarter of the year.</p> <p>A revised Budget was issued at the mid-year point to address the expected impacts of the pandemic and the annual budget was consulted on, issued and approved by Council in February 2021.</p>

<p>Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it</p>	
<p>Compliance Overview</p>	<p>The key arrangements for building our capacity and capability continued to operate throughout the year. The process for annual appraisals was temporarily paused early in the pandemic. Leadership forums, including Wider Leadership Forum were maintained</p> <ul style="list-style-type: none"> <li>• The Council is member of APSE and regularly benchmarks several key Council services e.g. Street Cleansing, Council Housing, Internal Audit, Waste Management, Pest Control and Leisure</li> <li>• The Council has received both blue and green flag status for its clean beaches and parks and open spaces</li> <li>• The Chief Executive and Section 151 Officer regular attend Lancashire Leaders and Lancashire Chief Finance Officer meetings</li> <li>• The Chief Executive is responsible and accountable to the Authority for all aspects of operational management and has regular meetings/1-1's with the Leader, Cabinet and the Senior Leadership Team.</li> <li>• The Executive Team meet with the Leader and Director on a weekly basis.</li> <li>• The Section 151 Officer is responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system</li> </ul>

	<p>of internal financial control and attends Executive Team meetings on invitation.</p> <ul style="list-style-type: none"> <li>• There is a clearly defined management structure and a scheme of delegation to officers, which is underpinned by the Members' Code of Conduct and a Protocol for Officer and Member relations</li> <li>• All new members receive a full corporate induction, ongoing support and role-specific training</li> <li>• An Accreditation review for Investors in People was carried out in January 2021, resulting in an upgrade to Silver accreditation, and an additional Health and Wellbeing Good Practice Award</li> <li>• An induction programme is provided for all new staff and Members</li> <li>• The Council has several policies and incentives to support the Health and Wellbeing agenda e.g. Agile Working, Absence Management, discounted gym membership and the Cycle to Work Scheme.</li> </ul>
<p>COVID-19 Impact and Council response</p>	<p>In the earlier stages of the pandemic, the Council redeployed staff and redirected resources from non-essential activity to critical services and areas of greatest need, in accordance with our emergency action plans and business continuity plans. Staff involved in redeployment have fed-back that they felt valued, empowered to make best use of their existing skills and gained new skills and insights.</p> <p>The health &amp; wellbeing of our employees during the COVID pandemic and lockdown period has been a top priority, and as well as ensuring we engage with staff as stakeholders, we have focused on building a resilient and high performing workforce:</p> <ul style="list-style-type: none"> <li>• Maintaining wellbeing and HR policy information on dedicated staff intranet sites with links to active internal and external support networks, resources and staff well-being check in surveys; and actions arising from those surveys; and</li> <li>• Regular live broadcast to staff from Executive to communicate key well-being messages, updates and Q&amp;A.</li> </ul> <p>The Council's move to the Cloud-based Microsoft 365 environment has secured communication and data security and has also enhanced our ability to work remotely and collaboratively.</p>

<p>Principle F: Managing risks and performance through robust internal control and strong financial management</p>	
<p>Compliance Review</p>	<ul style="list-style-type: none"> <li>• The regulations, policies and governance arrangements set out in the Code of Corporate Governance have been fully applied throughout the year for the Council. Examples of these include</li> <li>• The Council refreshed its Risk Management Policy and procured risk management software to assist with the administration of strategic and operational risk</li> <li>• Information asset registers and privacy notices are now in place for most of the council's service areas and are reviewed by Internal Audit as part of individual service reviews</li> <li>• The Council has an Overview and Scrutiny Committee and a Budget and Performance Panel which have been set clear roles and responsibilities</li> <li>• Key Performance Indicators are reported quarterly to Cabinet and the Budget and Performance Panel and a 'Narrative Report' is published within the Statement of Accounts.</li> <li>• Effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based</li> <li>• There is a calendar of dates for submitting, publishing and distributing timely reports to the Council's committees</li> <li>• An effective Internal Audit Service was resourced and maintained, and</li> </ul>

	<p>all Audit reviews are conducted under the Auditing Practices Board Guidelines and in line with Public Sector Internal Audit Standards (PSIAS)</p> <ul style="list-style-type: none"> <li>• In accordance with the Accounts and Audit Regulations 2015, an annual assessment of the Council’s systems of internal audit is carried out each year using the PSIAS and the checklist provided in the Local Government Application Note published by CIPFA. A recent PSIAS peer review resulted in a full compliance opinion being given</li> <li>• The Head of Internal Audit and Assurance has developed a Quality Assurance Improvement Programme to ensure the continual improvement of the Internal Audit Service</li> <li>• An Audit Committee is in place, which is independent of the Executive and the Overview and Scrutiny function</li> <li>• The Head of Internal Audit and Assurance was a certified and chartered auditor (CIA, CMIIA) and also held a Qualification in Internal Audit Leadership (QIAL)</li> <li>• The implementation of internal audit report recommendations is monitored by the Head of Internal Audit and Assurance and the Audit Committee</li> <li>• The Council has several counter-fraud policies in place which assist against fighting fraud and corruption</li> <li>• The Council has a Anti Money Laundering Policy in place which is reviewed by the Audit Committee and has recently appointed a new ‘Anti Money Laundering Reporting Officer’</li> <li>• The Council’s Annual Governance Statement is prepared in compliance with CIPFA’s ‘delivering good governance in Local Government</li> <li>• The Council uses an on-line e-learning portal to promote the General Data Protection Regulations (GDPR) and information security and is mandatory for all new starters</li> <li>• The Council has a designated Data Protection Officer and continues to work towards ensuring it is fully compliant with GDPR. A recent DP Audit has provided a detailed action plan of areas for improvement.</li> <li>• Secure arrangements are in place for the transfer of sensitive data (SFTP and encryption tools available within Office 365)</li> <li>• The Council has both a records management policy and a confidential waste policy in place</li> <li>• Those making decisions are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical and financial issues and their implications</li> <li>• Budget monitoring reports are issued to budget holders on a regular basis</li> </ul>
<p>COVID-19 Impact and Council response</p>	<p>The impact of COVID on the Council’s financial position was subject to monthly financial analysis and presented to Cabinet and Budget &amp; Performance Panel alongside financial impact returns to central government.</p> <p>Quarterly budget monitoring reports provided a COVID/ Non-COVID forecast information as well as commentary on the position of the Capital Programme and any delays in delivery.</p> <p>COVID related expenditure was coordinated and governed centrally in accordance with delegated authorities. All specific grant funds and allocations were accounted for and controlled in compliance with the terms of the conditions of the grant and our financial rules and procedures.</p>

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

<p>Compliance Review</p>	<p>The Council endeavours always to be open and transparent. The regulations, policies and governance arrangements set out in the Code of Corporate Governance have been applied throughout the year for the Council and can be accessed here:</p> <ul style="list-style-type: none"> <li>• The Council is compliant with the Local Government Transparency Code 2015</li> <li>• Each year we publish information on our website outlining how we spend Council Tax income.</li> <li>• A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements</li> <li>• The Council's website is comprehensive, accurate and user friendly</li> <li>• The Council has an on-line Planning Application Policy</li> <li>• Annual presentations are delivered for elected Members concerning the Council's finances as part of the production of the Revenue Estimates, the Capital Programme and the update of the MTFs</li> <li>• An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion</li> <li>• The Council ensures that all audit recommendations are subject to a follow-up audit ensuring that recommendations are acted upon</li> <li>• The Council complies with both the Public Sector Internal Audit Standards and CIPFA's Statement on the role of the Head of Audit (2010)</li> <li>• In accordance with the Audit and Account Regulations 2015, an annual assessment of the effectiveness of the internal audit function is completed annually</li> <li>• The Audit Committee work programme provides the opportunity for the Head of Internal Audit and Assurance to have a private and confidential discussion with the Audit Committee Members</li> <li>• The Council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training</li> <li>• Arrangements for accountability and prevention of corruption when working with suppliers and partners are documented within the Council's Contract Procedure Rules</li> </ul>
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<p>COVID-19 Impact and Council response</p>	<p>At to onset of the pandemic in accordance with regulations face to face meetings were temporarily cancelled with virtual meetings commencing 28th April. Reports and minutes were published and made available to the public in the usual way.</p> <p>A temporary scheme of delegation addressing decision making and spending during the pandemic was introduced in June 2020 to ensure each allocation of the Council's resources was carefully considered and approved.</p> <p>Although delivery of the 2020-21 Internal Audit plan was initially paused, due to reprioritisation of service based and audit resources, audit assurance work resumed in the year to complete sufficient audits to provide an annual audit opinion for the year.</p>
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## Financial Management Code

The CIPFA Financial Management Code 2019 (FM Code) was introduced during 2020-21, to improve the financial resilience of organisations by embedding enhanced standards of financial management. Although the implementation of the FM Code is mandatory only from 2021-22, the Council has assessed compliance with the Code in 2020-21, against each of the seven standards. This concluded that the current working practice and noted planned improvements will meet the expectations of the Code of Practice against each of the standards:

- Responsibilities of the Chief Finance Officer and Leadership Team.
- Governance and Financial Management Style.
- Long to Medium Term Financial Management.
- The Annual Budget.
- Stakeholder Engagement and Business Plans.
- Monitoring Financial Performance; and
- External Financial Reporting

## **REVIEW OF EFFECTIVENESS**

We have responsibility for conducting, at least annually, a review of the effectiveness of our governance framework including the system of internal control. The review of effectiveness is informed by the work of managers within the Council who have responsibility for the development and maintenance of the governance environment and by the Head of Internal Audit's annual report. In addition, Directors have confirmed that they have complied with the risk management framework throughout the year and have provided assurances at year end, including additional assurances about COVID impacts through the year.

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

### **Assurance from Internal and External Audit**

#### Internal Audit Assurance

One of the key assurances the Council receives is the Internal Audit Annual Report. In this report, the Internal Audit and Assurance Manager gives an opinion on the Council's internal control, risk management and governance framework.

The 2020/21 Internal Audit Annual Report stated that whilst there are a number of audits that have still to be finalised owing to the delays caused by the Covid-19 pandemic the Council has... *"adequate' controls in place in the majority of the areas examined to be able to maintain an adequate and effective internal control environment. There are several areas where a 'limited assurance' opinion has been given and, in these instances, mitigating action plans have been agreed"*.

This year's report notes the significant progress made around operational risks and the involvement of Service Managers to update risk registers with details. However, the reports refer to concerns around ownership of strategic risks by the Council's Executive and capacity within the Council to fully embed risk management. The Executive are taking this matter seriously, including a comprehensive look at the end-to-end policies, plans, controls and capacity in place for Risk, Improvement, Audit and Assurance, providing regular updates on this work to Audit Committee.

#### External Audit Assurance

The Council's external auditors, Deloitte provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The revised COVID-19 deadlines have impacted the external auditor's ability

to resource the audit and as a result the 2019/20 financial statements audit is yet to be concluded.

All External audit work is conducted with regard to the Code of Practice produced by the National Audit Office. Going forward certain changes are expected to external oversight as the recommendations from the Redmond Review are considered.

### **A review of key performance indicators**

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2020/21 is set out in the table below.

<b>Indicator</b>	<b>Performance in 2020/21</b>
Formal reports issued by the Section 151 Officer or Monitoring Officer	No formal reports have been issued by the Section 151 Officer or the Monitoring Officer.
Number of data incidents reported to the Data Protection Officer (DPO)	20 incidents were reported to the DPO in 2020/21 All were checked and none were reported to the ICO
Number of Data Breaches reported to the Information Commissioner's Office (ICO)	Of the 20 incidents reported to the DPA, none were reported to the ICO
Outcomes from Standards Committee or Monitoring Officer investigations	6 breaches of the code of conduct were reported to the Monitoring Officer but none went to the Standards Committee in 2020/21 due to local resolution by the Monitoring Officer
Proven frauds carried out by councillors or members of staff	There have been no proven frauds carried out by Councillors' or members of staff in 2020/21
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2020/21

## **GOVERNANCE ISSUES AND SIGNIFICANT CHALLENGES**

### **Issues Identified in Prior Years**

Risk Management and Information Governance were identified as governance issues in 2019/20, further commentary on the progress to address these is provided below.

### **Significant Governance Issues**

#### Human Resources Assurance Work

Following a number of concerns, Internal Audit undertook a review into the Council's Human Resources highlighting a number of control weaknesses which resulted in a minimal assurance and gave rise to a number of recommendations. Whilst action was undertaken to address the more serious concerns and issues raised work is progressing to address these issues and work has continued to address them beyond the end of the financial year. Regular updates are now in place with the Audit Committee and a follow up Audit will take place in Autumn 2021.

#### Information Governance

The council's Information Governance (IG) Team continue to work on compliance with the General Data Protection Regulations which came into force on the 25 May 2018. The draft report and recommendations recognised that significant progress has been made in some areas. However, there were still a number of areas that required immediate attention, therefore only 'limited' assurance was provided. Much of the work required under the recommendations is collaborative and requires significant participation from all Council departments. Unfortunately, owing to the need to prioritise the response to the pandemic and the re-allocation of large numbers of staff it has not been possible to progress the action plan to any significant degree. As the pandemic response is cautiously moving towards the recovery phase, it is hoped that significant progress can be made this audit year.

## **Minor Governance Issues**

A number of minor governance issues were identified following the Annual Governance meetings with key officers. These have been documented in an action plan which will be monitored by Internal Audit and reported to the Executive Team on a quarterly basis and the Audit Committee as part of the progress reporting arrangements.

## **Significant Challenges for 2021/22 and Beyond**

### Strategic Risk Management

Strategic risk management continues to be raised as an area of concern, whilst the Council has a Strategic Risk Register, it still requires significant improvement as it currently does not reflect all of the Council's key risks and priorities. As a result, Internal Audit have not been able to utilise this risk register to drive and prioritise their audit work. To date, the strategic risk register has been driven by the Internal Audit Team. The Executive are taking this matter seriously, including a comprehensive look at the end-to-end policies, plans, controls, and capacity in place for Risk, Improvement, Audit and Assurance, providing regular updates on this work to Audit Committee. This should lead to a significant improvement in the Internal Audit Strategy and programme.

### Provision of Internal Audit

For the past 4 years the Council has held an agreement with Wyre Borough Council for the provision of the role of Head of Internal Audit (HoIA). Unfortunately, the Council received notification that from 1st April 2021 this agreement would come to an end. Subsequent to this the Council's Principal Auditor has accepted a position at another local authority and as a result, the Council is without an Internal Audit function. All Councils are required to have an Internal Audit function as it occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. We are currently finalising proposals for the future provision and arrangements for securing an effective Internal Audit linked to the wider work on Risk, Improvement, Audit and Assurance cited above.

### Financial Sustainability

The true impact of the COVID-19 pandemic on the 2021/22 budget and future years is unknown. Government assistance through various grant payments and the extension of the furlough scheme is helping to support the local economy, however it is unclear what the impact will be once these support packages end. Given the absence of a long-term financial settlement by Central Government, the continuing impact of COVID-19 on sales, fees and charges, financial sustainability remains a significant risk facing the Council.

The 2021/22 revenue budget was approved at Full Council 24 February 2021 and required a contribution of £2.267M from the Council's reserves in order to balance the budget.

Based on current assumptions the year-on-year cumulative structural deficit is forecast to exceed £11M by 2024/25. Although there are many variables contained within the calculation of the deficit, funding purely from the Council's reserves is not an option as it does not address the underlying structural issues. Reserves can however be utilised to help to ensure the smooth transition of a number of initiatives aimed at eliminating the deficit.

Although Outcomes Based Budgeting (OBR) principles have been applied as part of the 2021/22 budget process it is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit. It will be further considered by the Financial Resilience Group alongside ongoing work to embed the Council's new priorities and outcomes during 2021/22.

A process is already underway to seek an in year reduction in the amount of reserves being utilized and to deliver a balanced budget for 2022/23 and beyond with an initial focus on systematic review of vacancies to align with priorities, a detailed analysis of the Budget book and workshops with Heads of Service, alongside extensive work with elected members to set priorities aligned with resources.



## **REVIEWING AND REPORTING ARRANGMENTS**

The CIPFA/SOLACE guidance recommends that authorities should undertake annual reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the framework.

Owing to the Covid-19 pandemic and key staff being redeployed to work in other areas, this year the Annual Governance Statement for 2020/21 has been pulled together via engagement with all key officers, who have the most appropriate knowledge, expertise and levels of seniority providing information and key evidence to support how the organisation has complied with the principles set out in guidance.

As well as demonstrating how the Council is meeting each of the principles, it is also an opportunity to identify any issues or gaps that could lead to a weaker governance structure.

The AGS is submitted for consideration by the Leader and Chief Executive who then sign to certify they are aware of the governance issues within the Council and of the measures that are required to improve the controls around the Council's governance framework.

## **CERTIFICATION**

As the Leader of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2021 is satisfactory.

**Councillor Caroline Jackson**

Leader of Lancaster City Council

As the Chief Executive of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2021 is satisfactory.

**Kieran Keane**

Chief Executive of Lancaster City Council