

# Annual Governance Statement 2017

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## Executive Summary

The Leader of the Council (Cllr Martin Hill OBE) and Chief Executive (Tony McArdle) both recognise the importance of having good management, effective processes and other appropriate controls in place to run the Council in delivering services to the communities of Lincolnshire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how its corporate governance arrangements have been working. To help us do this the Council's Audit Committee undertakes a review of our governance framework and the development of the AGS.

On the 26<sup>th</sup> June 2017 the Audit Committee considered and challenged the content and the significant governance issues identified in the Statement – ensuring that the Statement properly reflects how the Council is run – identifying any improvement actions.

The final statement was formally approved by the Audit Committee on the 25<sup>th</sup> September 2017 - where it was recommended for signing by the Leader of the Council, Chief Executive and the Executive Director – Finance and Public Protection.

## Significant Governance Issues

Overall we can confirm that the Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst we are satisfied that these generally work well our review has identified a number of areas for improvement, namely:

Key improvement Area	Lead Officer	To be delivered by
IT Governance	Executive Director – Environment and Economy	March 2018
Financial Sustainability	Executive Director – Finance & Public Protection	February 2018
Financial Control Environment	Executive Director – Finance & Public Protection Executive Director – Children Services (HR/ Payroll)	March 2018
Market Supply	Executive Director – Adult Services	March 2018
SERCO contract – Lessons Learnt (KPMG)	Chief Executive	March 2018

Key improvement Area	Lead Officer	To be delivered by
report).		
Delivery of Support Services and Improvement - SERCO	Chief Executive	March 2018
Collaborative Working - Governance Arrangements	Executive Director – Finance & Public Protection	March 2018

The continuing operational difficulties faced by the Council on the SERCO contract has resulted in a lack of progress on the planned improvements around the Council's financial control environment and in the Information Management Team. Progress is slow resulting in significant attention and resource continuing to be focussed on SERCO's operational delivery and the implementation of agreed improvement plans.

Progress made dealing with the governance issues identified in the 2015/16 Annual Governance Statement is contained on page 14.

We propose over the coming year to address the matters identified and will monitor implementation and operation as part of performance management - reported to the Council's Corporate Management Board and Executive. The Audit Committee will also help us with independent assurance during the year.

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Councillor Martin Hill OBE  
Leader of the Council

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Tony McArdle  
Chief Executive

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Pete Moore  
Executive Director – Finance and Public  
Protection

(oversight responsibility for Governance and the  
Council's Section 151 Officer)

***Signed on behalf of Lincolnshire County Council***

## What is Corporate Governance?

Good Governance can mean different things to people – in the public sector it means:

*"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"*

Corporate governance generally refers to the processes by which an organisation is directed, controlled, led and held to account.

The Councils governance framework aims to ensure that in conducting its business it:

- operates in a lawful, open, inclusive and honest manner
- makes sure public money is safeguarded, properly accounted for and spent wisely
- has effective arrangements in place to manage risk
- meets the needs of Lincolnshire communities - secures continuous improvements in the way it operates.

Our governance framework comprises of the culture, values, systems and processes by which the Council is directed and controlled. It brings together an underlying set of legislative and regulatory requirements, good practice principles and management processes.

## The Principles

### A summary

Principle A	Principle B	Principle C
Integrity and Values	Openness & Engagement	Working Together
<b>How we do this:</b>	<b>How we do this:</b>	<b>How we do this:</b>
<p>Staying true to our strong ethical values and standards of conduct</p> <p>Respecting the rule of law</p> <p>Creating a culture where statutory officers and other key post holders are able to fulfil their responsibilities</p> <p>Ensuring fraud, corruption and abuse of position are dealt with effectively</p> <p>Ensuring a safe environment to raise concerns and learning from our mistakes</p>	<p>Keeping relevant information open to the public and continuing their involvement</p> <p>Consultation feedback from the public is used to support service and budget decisions</p> <p>Providing clear rationale for decision making – being explicit about risk, impact and benefits.</p> <p>Having effective scrutiny to constructively challenge what we do and the decisions made</p>	<p>Having a clear vision and strategy to achieve intended outcomes - making the best use of resources and providing value for money</p> <p>Being clear about expectations - working effectively together within the resources available</p> <p>Developing constructive relationships with stakeholders</p> <p>Having strong priority planning and performance management processes in place</p> <p>Taking an active and planned approach to consult with the public</p> <p>Regularly consult with employees and their representatives</p>

## The Council aims to achieve good standards of governance by:

- A. behaving with integrity and in accordance with our core values
- B. being open and ensuring effective engagement takes place
- C. working together to achieve our intended outcomes
- D. setting goals for economic, social and environmental benefits and reaching them
- E. growing our capacity - including our leadership and the people who work with us
- F. managing risks and performance through robust internal control and strong financial management
- G. Implementing good practice in transparency, reporting and audit – delivering effective accountability

<b>Principle D</b>	<b>Principle E</b>	<b>Principle F</b>	<b>Principle G</b>
Making a Difference	Capability	Managing Risk & Performance	Transparency & Accountability
<b>How we do this:</b>	<b>How we do this:</b>	<b>How we do this:</b>	<b>How we do this:</b>
Having a clear vision and strategy setting out our intended outcome for citizens and service users	<p>Clear roles and responsibilities for Council leadership</p> <p>Maintaining a development programme that allows Councillors and Officers to gain the skills and knowledge they need to perform well in their roles.</p> <p>Evaluating Councillor and Officers' performance</p> <p>Regular oversight of performance, compliments and complaints to enable results (outcomes) to be measured and enable learning</p>	<p>Ensuring that effective risk management and performance systems are in place. That these are integrated in our business systems / service units</p> <p>Having well developed assurance arrangements in place</p> <p>Having an effective Audit Committee</p> <p>Effective counter fraud arrangements in place</p>	<p>Having rigorous and transparent decision making processes in place</p> <p>Maintaining and effective scrutiny process</p> <p>Publishing up to date and good quality information on our activities and decisions.</p> <p>Maintaining an effective internal and external audit function</p>

## The Council – How it works

The Annual Governance Statement covers the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017. The information below relates to this period. A new Executive and Scrutiny structure will come into effect from May 2017.

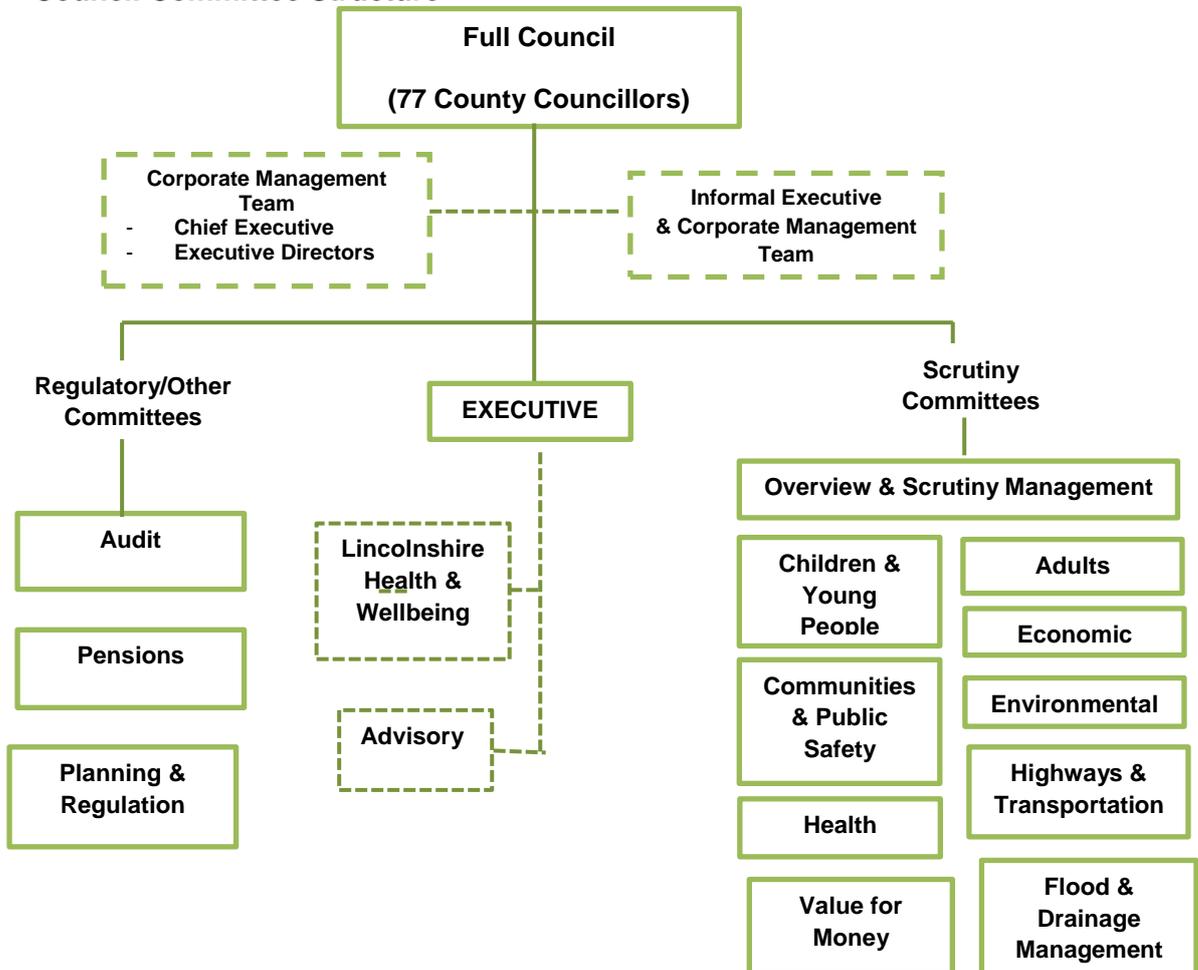
The Council is made up of 77 Councillors and operates a Leader and Executive model of decision making.

All 77 Councillors meet at full Council to agree the budget and policy framework. In 2016/17 ten Councillors form the Executive. The Executive make the decisions that deliver the budget and policy framework of the Council.

The remaining 67 Councillors form scrutiny committees. These committees develop policy and scrutinise decisions made by the Executive and key decisions made by officers – holding them to account. A number of Committees deal with Regulatory issues.

We have reviewed our scrutiny arrangements during 2016 – aiming to make them more effective. The new scrutiny structure for the new Council started in May 2017. We will assess how well they are working later in the autumn.

**Figure 2 – Council Committee Structure**



## Outcomes and Value for money

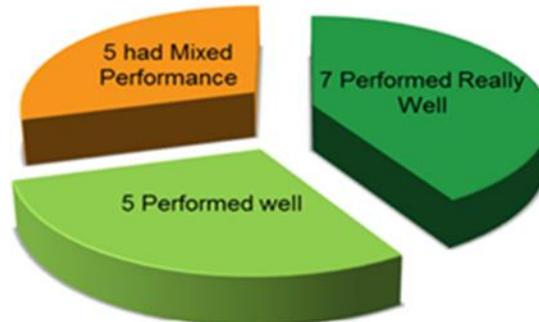
### Our Plan and Performance Dashboard

We want to support a society where people contribute to their communities and are willing and able to look after themselves and others; a county where:



We achieved the majority of the targets we set out in our Council Business Plan 2016/17. A summary of our performance as a snap shot at the end of March 2017 is presented below.

### Of the 17 Commissioning Strategies....



Performed really well (All measures achieved)	Performed well (All but 1 measure achieved)	Mixed performance (A combination of 'Achieved' and 'Not Achieved')
<ul style="list-style-type: none"> <li>• Community resilience and assets</li> <li>• Readiness for school</li> <li>• Sustaining and growing business and the economy</li> <li>• Sustaining and developing prosperity through infrastructure</li> <li>• How we effectively target our resources (A combination of 3 commissioning strategies)</li> </ul>	<ul style="list-style-type: none"> <li>• Learn and achieve</li> <li>• Protecting and sustaining the environment</li> <li>• Safeguarding adults</li> <li>• Specialist adult services</li> <li>• Wellbeing</li> </ul>	<ul style="list-style-type: none"> <li>• Adult Frailty, long term conditions and physical disability</li> <li>• Carers</li> <li>• Children are safe and healthy</li> <li>• Readiness for Adult life</li> <li>• Protecting the public</li> </ul>

For up to date performance against our Council Business Plan 2017/18 please click on the links below: [Council's Performance Dashboard](#)

## Managing our resources (Value for Money)

The external auditors of the Council partially qualified their Value For Money judgement for 2015/16 on the basis that inadequate budget monitoring information was available from Agresso during that year. This position has improved significantly over the last year and a similar outcome based on that aspect is not anticipated for 2016/17.



The Council is generally in a sound financial position relative to other Councils over the short term. This is a consequence of implementation many savings initiatives in the earlier part of this decade. Despite this, there has been no general increase in public dissatisfaction across the board with the standard of services delivered. Specific changes have caused some public disquiet at and just after the point of their initiation.

Extensive public consultations were undertaken prior to finalising the 2016/17 budget. As a direct result of public feedback proposals to make substantial reductions to the budgets for children's centres and bus subsidies were deferred for at least two years. In addition, proposals to reduce street lighting were modified shortly after implementation commenced in direct response to public concerns.

The Council is constantly monitoring its long term financial position using a funding model which presently covers the next two financial years (i.e. up until March 2020), that being the period covered by the four year funding deal agreed with Central Government in 2016. The model predicts the budget shortfall for future years taking into account known cost pressures and planned savings. The model is necessarily underpinned by a range of prudent assumptions.

The projected budget shortfall is periodically reported to the Corporate Management Board and forms a starting point for setting future budgets. The current budget strategy remains to use a blended mix of revenue budget savings combined with the prudent use of reserves. Work is underway to develop detailed budget proposals for the next two financial years.

The model will be extended beyond 2019/20 once central government has given more indication of their intentions for the medium to long term funding of local government. It is hoped that this will take place later this year.

Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2015). We also ensure that we provide timely support, information and responses to our external auditors – properly considering audit findings and recommendations through our Senior Management and the Audit Committee.

## How do we know our arrangements are working?

There are a number of ways we do this:-

### The role of management

Our managers have the day to day responsibility for managing and controlling services - they are accountable for their successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance.

Our Corporate Management Team and Governance Group oversee the review and the Council's governance arrangements and the development the Annual Governance Statement.

This year, a review of our governance arrangements was undertaken by Internal Audit – commissioned by our Governance Group. The outcome of this confirmed that we comply with current best practice – with strong governance arrangements in place that are up to date and relevant to the environment we work in. The review did suggest a number of improvements around:

- **Ethics** – One key area of the new governance guidance is demonstrating the 'ethical mind set' in how decisions are made. An Internal Audit is planned for 2017/18 seeking to provide the Corporate Management Board with assurance on how well our governance arrangements work in practice.
- **Partnerships** - better accountability and transparency is required over contract and partnership risks and their assurance arrangements. The Council's financial procedures and guidance in this will be updated during 2017.

## Our Governance Framework

- Services are delivered economically, efficiently & effectively
- Management of risk
- Effectiveness of internal controls
- Democratic engagement & public accountability
- Budget & financial management arrangements
- Roles & responsibilities of Members & Officers
- Standards of conduct & behaviour
- Compliance with laws & regulations, internal policies & procedures
- Actions plans dealing with significant issues are approved, actioned & reported upon

**Assurance  
Required Upon**

Code of  
Corporate  
Governance

- Constitution (incl. statutory officers, scheme of delegation, financial management & procurement rules)
- Audit Committee
- Internal & external audit
- Independent & external sources
- Council Executive & Scrutiny
- Medium Term Financial Strategy
- Complaints system
- HR policies & procedures
- Whistleblowing & other countering fraud arrangements
- Risk management strategy & framework
- Performance management system
- Codes of conduct
- Corporate Management Team

**Sources of Assurance**

## The role of the Audit Committee

The Council's Audit Committee plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done.

The Audit Committee provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

[Audit Committee Meetings and Minutes](#)

## Our Governance Framework

- Statement of accounts
- External audit reports
- Internal audit reports
- Local Government Ombudsman report
- Risk Management Reports
- Counter fraud reports
- Scrutiny reviews
- Effectiveness reviews of Audit Committee
- Combined Assurance Status Reports
- Overview & Scrutiny Annual Report
- Performance & Delivery Reports
- Annual Report
- Monitoring Officer Annual Report

### Assurances Received

- IT Governance
- Financial Sustainability
- Financial Control
- Environment
- Market Supply
- SERCO contract – Lessons Learnt (KPMG report)
- Delivery of Support Services & Improvement – SERCO
- Collaborative Working – Governance Arrangements

### Opportunities to improve – our key risks

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### Combined Assurance

A Combined Assurance Status report is produced by each Director on the level of confidence the Council can have on its service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports were reviewed by the Audit Committee in January 2017.

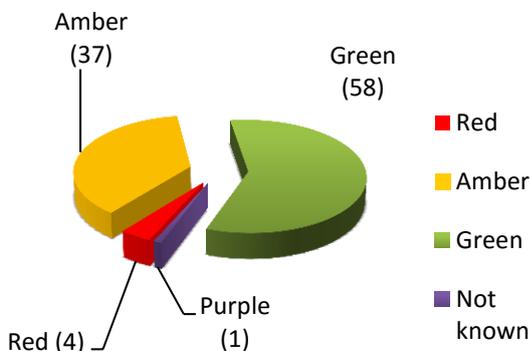
The Council adopts the 'three lines of assurance methodology;-



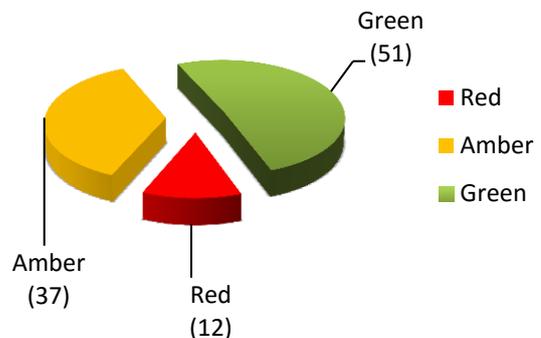
Overall it gives a positive assurance picture for the Council but does reflect the complex environment in which we operate. The future will mean that the Council will need to be comfortable with taking more high risk decisions and accepting that there may be service failures as a consequence of budget and service reductions

### Our assurance levels

**Overall Assurance Status 2015/16**



**Overall Assurance Status 2016/17**



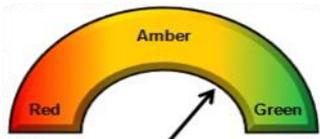
<b>Key</b>	
<b>Red</b>	High impact on resources, significant costs likely, high impact on service delivery
<b>Amber</b>	Medium or short term impact on resources, costs covered within existing financial plans, low impact on service delivery
<b>Green</b>	Monitor and be aware, activity to mitigate risk within existing service delivery plans
<b>Purple</b>	Not known

## The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. Their Annual Report and opinion has been considered in the development of the Annual Governance Statement and any significant governance issues incorporated as appropriate.

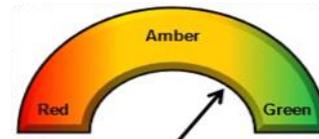
### Head of Internal Audit opinion – twelve months to 31<sup>st</sup> March 2017

#### Governance



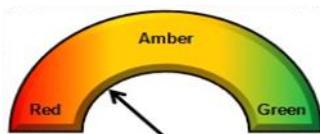
**Performing Well** – Some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council

#### Risk



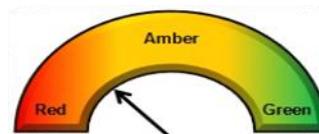
**Performing Well** – Some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council

#### Internal Control



**Inadequate Performance** – Urgent management action identified (in progress) on major governance issue or high risk in a key system / process area which has a negative impact throughout the Council

#### Financial control



**Inadequate Performance** – Urgent management action identified (in progress) on major governance issue or high risk in a key system / process area which has a negative impact throughout the Council.

## Our Strategic Risks

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This put us in a stronger position to deliver our goals and provide excellent services. Our risk management process is well established in the way we work. The Audit Committee is responsible for reviewing how effective our risk management procedures are.

Our Strategic Risk Register is regularly reviewed and our risks are being effectively managed.

Risk	Mitigating Actions	Risk Rating	Level of Assurance
Safeguarding Children	<i>Good and effective management arrangements in place with controls working effectively</i>	Amber	Substantial
Safeguarding Adults	<i>Ongoing work to implement the new case management system</i>	Amber	Limited
Good Business Continuity and Resilience	<i>Programme in place to review and test continuity and recovery plans</i>	Amber	Limited
Funding and maintaining financial resilience	<i>Balanced budget and Medium Term Financial Strategy in place</i>	Amber	Substantial
Ability to deliver our programme of designated projects	<i>Project management arrangements in place</i>	Amber	Substantial
Adequacy of market supply to meet eligible needs for adults	<i>Ongoing work with market and suppliers to stimulate market in target areas</i>	Amber	Limited
Ability to recruit and retain staff in high risk areas	<i>Proactive work continuing in this area</i>	Amber	Limited
Maintenance of effective governance arrangements	<i>Benchmarked against good practice and review of scrutiny structure implemented</i>	Green	Substantial
Ensuring contracts are fit for purpose in the Commission Agenda / significant contracts	<i>Commercial team supports the business with ongoing work to strengthen contract management (intelligent client) and learning from procurement / existing contracts</i>	Amber	Limited
Effective implementation of Agresso system – Finance and HR systems	<i>Ongoing work to improve systems, processes and controls.</i>	Amber / Red	Limited / Low
Cyber Security	<i>Ongoing work to identify and manage the ever changing risk presented by cyber threats. ISO/IEC 27001:13 accreditation attained</i>	Red	Limited

Key	Risk	Assurance
Red =	High impact on resources, significant costs likely, high impact on service delivery	Low level of confidence over the design and operation of controls, performance or management of risk
Amber =	Medium or short term impact on resources, cost covered within existing financial plans, low impact on service delivery	Medium level of confidence over the design and operation of controls, performance or management of risk
Green =	Monitor and be aware , activity to mitigate the risk within existing service delivery plans / management arrangements	High level of confidence over the design and operation of controls, performance or management of risk

## Looking Back on 2015/16

A number of improvement actions were identified as part of the 2015/16 Annual Governance Statement. The table below shows progress with these actions:

Action Identified	Progress
Financial Challenges Ahead – medium term financial strategy in place and the Council will submitted a 4 year efficiency plan to help secure Government funding in future years.	On track
Financial Control Environment – implementation of improvement plan by SERCO	Behind Plan
Implementation of Case Management System (Mosaic)	On track
Information Management Team (SERCO) - Delivery IMT transformation projects is behind schedule which is delaying improvements to the Council's IT operations and service efficiencies across the Council. Various dates for projects tracked through the Governance Board.	Behind Plan
Establishing the Combined Authority	No longer applicable
Governance Arrangements – Review risk culture	Complete
Governance Arrangements – Review strategic risk register	On track