AUDIT & GOVERNANCE COMMITTEE
Tuesday 19th September 2017

Please also note, a session has been arranged for Members of the Committee, to start at 6:00pm on 19 September , to review and challenge the risk register details relating to the Council's statutory Civil Contingencies responsibilities in respect of Emergency Preparedness and relating to the its own Business Continuity management arrangements.
The Committee will start at the rise of the training.

AGENDA

Part 1: Items for consideration in public

1. **Minutes of the meetings held on 13th June 2017**

2. **Declarations of interest**

3. **External Audit: Findings Report 2016/17**

   The Council's External Auditors will provide the Committee with a report on the outcomes of their annual accounts work.

4. **Statement of Accounts 2016/17**

   The Director of Finance & IT will submit the Statement of Accounts for approval and outline the main features.

5. **Treasury Management Report – June to August 2017**

   The Director of Finance & IT will provide the Committee with a report on Treasury Management activity.

6. **Draft Treasury Management Annual Report 2016/17 and Mid-Year Strategy Review 2017/18**

   The Director of Finance & IT will provide the Committee with a draft of the Annual Treasury Management Report for 2016/17 and Mid-Year Strategy Review for 2017/18.

7. **Audit & Assurance – Progress & Outcomes to August 2017**

   The Head of Audit & Assurance will report on progress and outcomes achieved within Audit & Assurance.

8. **Risk Management – 2017/18 Quarter 1 Review**

   The Head of Audit & Assurance will provide the Committee with a report on Risk Management.

Part 2: The Press and Public may be excluded during consideration of the following items

Harry Catherall
Chief Executive
September 2017

AUDIT COMMITTEE
Tuesday, 13th June 2017

PRESENT – *Councillors Sidat (in the Chair); Whittle, McGurk, and D Foster.*

APOLOGIES – *Councillors Casey and Murray.*

ALSO PRESENT

Councillor Kay	–	Executive Member Resources
Neil Krajewski	–	District Auditor
Louise Mattinson	–	Director of Finance and IT
David Fairclough	–	Director of HR and Legal
Colin Ferguson	–	Head of Audit and Assurance
Lorraine Nicholls	–	Health, Safety and Wellbeing Manager
John Addison	–	Democratic Services Manager

RESOLUTIONS

1 Minutes of the meeting held on 11th April 2017

The minutes of the meeting held on 11th April 2017 were agreed as a correct record.

2 Declarations of interest

There were no declarations of interest.

3 External Audit's Report Update

The Council's External Auditors provided the Committee with a verbal report on the current position of their work as of March 2017. The External Auditors reported that they had found no significant risks to bring to Members attention through their work.

RESOLVED:

That the report on External Audit's progress report be noted.

4 Treasury Management Report – March 2017 to May 2017

The Director for Finance and IT provided Members with a report on the Council's Treasury Management function that had taken place between March and May 2017.

The report summarised the interest rate for the quarter, borrowing and lending transactions undertaken and the Council's overall debt position. It

also reported on the position against the Prudential Indicators established by the Council.

RESOLVED

That the Committee note the report.

5 Audit & Assurance – Progress & Outcomes to May 2016

The Audit & Assurance Manager submitted a report, which updated the Committee on progress and outcomes against the Audit & Assurance Plan 2016/17 in terms of outcomes achieved for the first quarter of the financial year.

The report focused on a number of key areas in Audit & Assurance, in particular:

- Capital Work
- Staffing/HR
- Demand Management
- Governance and Compliance
- Government Reform
- Budgets and Finance

Members were informed that the Highways audit had provided limited assurance, the review had considered the controls in place to ensure that the Council's highways network was maintained to a reasonable standard. It was noted that the final report provided a limited assurance opinion for both the control environment in place and compliance with the controls identified.

RESOLVED

That the Committee note all outcomes achieved by May 2017 against the Audit & Assurance Strategy and Plan, which was approved by Committee in April 2017.

6 Corporate Annual Report on Health, Safety & Wellbeing 2016//17

The Director for Legal & HR and the Health, Safety & Wellbeing Manager provided the Committee with the Health, Safety & Wellbeing annual report and the Employee Wellbeing Statement.

It was reported that the Corporate Annual Report - Health, Safety & Wellbeing – 2016/2017 provided Members with a summary of the Council's performance in managing health and safety over the year that ended 31 March 2017.

Members were reminded that the Council has legal duties under the Health and Safety at Work Act 1974 as well as other UK health and safety legislation to protect the health, safety and welfare of employees and other people who may be affected by Council business and activities. It was noted that the Council must do whatever was reasonably practicable to achieve this. This meant protecting workers and others from anything that may cause them harm and effectively controlling any risks to injury or health that could arise in the workplace.

The report covered key areas such as Performance for 2016/17, Key activities during the year and Priorities for the next 12 months.

RESOLVED

That the Committee note the Corporate Annual Report - Health, Safety & Wellbeing – 2016/2017

7 Annual Risk Management Report 2016/17

The Director of Finance provided the Committee with an Annual Risk Management Report for 2016/2017. Members were asked to consider and review the annual Risk Management Report. The Committee was also requested to agree on the overall effectiveness of the Council's risk management arrangements in place during 2016/17.

Members were reminded that the Corporate Risk Management Strategy and Framework 2015/20 required the Audit and Governance Committee to approve an annual risk management report which includes consideration of the effectiveness of the risk management arrangements in place within the Council. The Committee's terms of reference also required it to review progress on risk management at least annually.

RESOLVED

That the Committee note the annual risk management report; and agree with the conclusion on the overall effectiveness of the Council's risk management arrangements in place during 2016/17.

8 Annual Counter Fraud Report 2016/17

The Head of Audit & Assurance presented a report to Members which informed the Audit & Governance Committee of the results of the counter fraud activity that had been carried out during the year ended 31 March 2017 to minimise the risk of fraud, bribery and corruption occurring in the Council, and the outcome of investigations carried out into potential or suspected fraud or irregularities.

RESOLVED

That the Committee note the Counter Fraud Annual Report (as set out in Appendix A) as part of its monitoring role.

9 Annual Internal Audit Opinion Report for 2016/17

The Head of Audit & Assurance presented a report on Internal Audit's overall opinion on the effectiveness of the control environment in the financial year 2016/17.

It was reported that the overall opinion, taken from Audit & Assurance's work in 2016/17, was that the Council's control environment was adequate in its effectiveness.

RESOLVED

That the following matters be noted:

1) The content of the Annual Internal Audit Opinion Report for 2016/17 (as set out in Appendix A);

2) The opinion of the Head of Audit, Assurance & Procurement, that adequate assurance, can be placed upon the Council's framework of governance, risk management and internal control; and

3) The internal audit work that supports this opinion has been delivered in accordance with the PSIAS and that there are no significant areas of non-conformance.

10 Annual Governance Statement for 2016/17

The Director of Finance provided the Committee with the Annual Governance Statement (AGS) for 2016/17, which also included up to the date of this Committee. The report recognised that, there would always be risks that it must be managed effectively and that whilst due diligence would not always ensure that it gets things right first time, it continued to put in place assurance frameworks that were intended to ensure that its systems of governance are fit for purpose and have the flexibility to meet the challenges that the Change Agenda brings.

It was reported that the Resources Directorate had continued to promote the Council's strategic approach to governance and assurance. The developments in governance, continuing from those in 2016/17, included:

- Continuing review and amendments to the Council's Constitution, including the revision of the Council's Local Code of Corporate Governance to take account of the CIPFA/SOLACE Delivering Good Governance in Local Government 2016 framework.

- Completion of director assurance statements, which closely reflect the seven principles of good governance in support of the Annual Governance Statement.
- Ongoing work to implement the information governance strategy and related policies and procedures.
- Continuing embedding of information security awareness through the e-learning toolkit, and monitoring staff completion of training.
- The development and implementation of a Counter Fraud Risk Register.
- Strengthening of risk management arrangements through the implementation of a revised risk register template to improve the monitoring arrangements.
- Revision of the Medium Term Financial Plan and Capital Programme, which included a senior management structure review and amendments to the roles and responsibilities of chief officers.
- Ongoing scrutiny of the Workforce Review programme by the Workforce Programme Board.
- Completion of the Audit & Governance Committee self-assessment to evaluate its effectiveness.
- The introduction of a formalised, structured member training programme.
- The Audit & Governance Committee more routinely inviting senior officers to attend meetings and holding them to account for actions to address significant issues identified by Audit & Assurance.
- The review of significant partnerships and external bodies the Council is represented on to confirm the Council representation is appropriate and the governance arrangements in place are adequate.
- Detailed review and challenge of corporate risks by the Audit & Governance Committee.

RESOLVED

That the Annual Governance Statement be approved.

11 <u>Audit Committee Annual Report 2016/17</u>

The Audit and Assurance Manager presented to the Committee the Audit Committee Annual Report 2016/17 for consideration and approval. Members were informed that the report summarised the work that the

Committee had undertaken during the previous municipal year, demonstrating that the Audit Committee had fulfilled its agreed terms of reference.

Members were reminded that The CIPFA 'Audit Committees: Practical Guidance for Local Authorities and Police' 2013 edition incorporated CIPFA's Position Statement on the role and function of view of an Audit Committee in local authorities. It was noted that although no single model of Committee was prescribed, as a minimum all should report regularly on their work and provide an assessment of their performance on a yearly basis.

The Audit and Assurance Manager reported that the Audit Committee was a key component on the maintenance of an adequate and effective governance framework. It was noted that through an annual report the Committee can demonstrate its effectiveness in fulfilling its role to provide independent assurance regarding the adequacy of risk management, the overall governance and associated control environment, and also scrutiny of the Council's financial and non-financial performance, to the extent that it affects its exposure to risk and weakens the control environment.

RESOLVED

1) That the Committee approve the Committee's Annual Report, including the statement on its effectiveness during 2016/17 and the draft effectiveness self-assessment evaluation; and

2) That the Audit Committee Annual Report be referred to the Full Council for endorsement.

12 <u>Significant Partnerships Register 2016/17</u>

The Policy & Partnership Manager provided the Committee with a report on the Significant Partnerships Register for 2016/17. It was noted that the register identified all the significant partnerships the local authority was involved in as per the Audit and Governance Committee's Terms of Reference.

Members were informed that the Significant Partnerships Register was completed by officers to comply with a governance framework which had been adopted based on the principles of the Council's Code of Corporate Governance. The Register was an opportunity to ensure that partnerships across the local authority were well-governed and that appropriate oversight was in place.

It was reported that the purposes of this exercise a significant partnership was: 'an agreement between two or more independent bodies to work collectively to achieve a shared objective.'

It was defined as a joint working arrangement where the partners:

- are otherwise independent bodies;
- agree to co-operate to achieve common goals and outcomes for the community;
- share accountability, risks, and resources;
- share relevant information; and
- agree processes and programmes to achieve the common goal.

RESOLVED

That the Audit and Governance Committee approve the significant partnerships included in the May 2017 register.

Signed …….
Chair of the meeting at which the Minutes were signed
Date ……..

DECLARATIONS OF INTEREST IN

ITEMS ON THIS AGENDA

Members attending a Council, Committee, Board or other meeting with a personal interest in a matter on the Agenda must disclose the existence and nature of the interest and, if it is a prejudicial interest, should leave the meeting during discussion and voting on the item.

Members declaring an interest(s) should complete this form and hand it to the Committee Administrator at the commencement of the meeting and declare such an interest at the appropriate point on the agenda.

MEETING: **Audit Committee**

DATE:

AGENDA ITEM NO.**:**

DESCRIPTION (BRIEF):

NATURE OF INTEREST:

PERSONAL/PREJUDICIAL (delete as appropriate)

SIGNED :

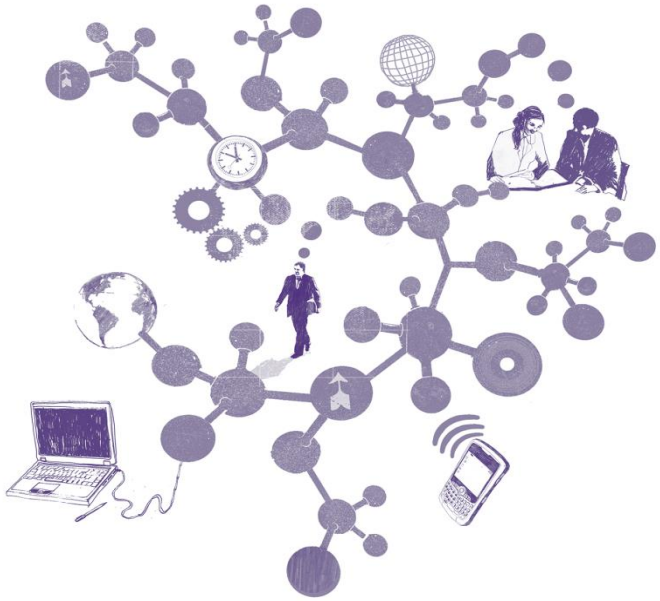
PRINT NAME:

(Paragraphs 8 to 13 of the Code of Conduct for Members of the Council refer)

The Audit Findings for Blackburn with Darwen Borough Council

Year ended 31 March 2017

September 2017



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22nd September 2017

Dear Sirs,

Audit Findings for Blackburn with Darwen Borough Council for the year ended 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Blackburn with Darwen Borough Council, the Audit and Governance Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with the Director of Finance and IT.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Karen Murray
Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Blackburn with Darwen Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- issue of an advisory notice (section 29 of the Act);
- application for judicial review (section 31 of the Act).
- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act); and
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in the Audit Plan which we presented to the Audit and Governance Committee at its meeting on 11 April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining a response from the Council's banks in respect of school bank accounts and outstanding items in our sample of schools income and expenditure transactions;
- obtaining supporting evidence for a small number of non-schools income and expenditure transactions;
- review of journal entries assessed as being large or unusual in nature;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of the final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- completing procedures mandated by the National Audit Office on the Whole of Government Accounts return.

Key audit and financial reporting issues

Financial statements opinion

To date we have identified one adjustment affecting the Council's reported financial position (details are recorded in section two of this report). As detailed later in this report, management do not propose to process the adjustment of £1.323M which would be required to correct the error as they do not consider it to be material. Therefore, the draft and audited financial statements for the year ended 31 March 2017 record a deficit on provision of services of £22,081k. During the course of the audit, we have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the Council successfully brought-forward the date when the accounts were authorised for issue to 14 June 2017. This was achieved against the backdrop of installing a new main accounting system. The prospects for closing the accounts by 31 May 2018 in line with next year's statutory deadline are good
- the financial statements are generally of a good standard and are supported by appropriate working papers
- we identified discrepancies concerning the arrangements to account for Council property in line with the CIPFA Code of Accounting practice. Addressing these issues to confirm the associated disclosures are materially correct has extended the length of this year's audit visit.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has identified four minor control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report on page 20.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Governance Committee in early 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and IT.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Finance and IT and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £8,729k (being 2% of gross revenue expenditure in the previous year's audited accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £436k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	The Council conducts its business using public funds. The Related Party disclosures ensures that the Council discloses in full any transactions that have occurred with related parties. This ensures that the Council is open about who it does business with and counters any allegations or suspicion of nepotism on the part of management, members or those charged with governance.	£20,000
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Blackburn with Darwen Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Blackburn with Darwen Borough Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have completed the following procedures: • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of property, plant and equipment The Council undertakes a rolling programme of revaluations of land and buildings. The approach taken to determine the carrying value of Property, Plant and Equipment in the Balance Sheet represents a significant estimate by management in the financial statements.	• Identification of controls put in place by management to ensure that the carrying value of property, plant and equipment is not materially different from current value at year end and an assessment of whether these controls are implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Review of management's processes and assumptions for the calculation of the estimate; • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work; • Sample testing to obtain assurance over the accuracy of valuations recorded in the Asset Register by tracing the valuations in the asset register back to reports received from the valuer; • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions; • Review and challenge of the information used by the valuer to inform their valuations to ensure it is robust and consistent with our understanding; and • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to carrying value.	The key matters arising from our audit testing are as follows: **(i) Audit consideration of the Council's rolling programme of valuations** Management instruct the valuer each year to undertake valuations in line with a five-year rolling programme. We have reviewed the valuations provided to management and noted that the valuation basis referred to is not always consistent with the requirements set out in the CIPFA Code of Practice. We requested and received assurance from the valuer that the valuation has been completed on an appropriate basis. We also requested and obtained assurance from management that the accounting entries posted correctly adjust the accumulated depreciation balance on receipt of a new valuation. **(ii) Management's review of prior year valuations** Management have long-standing arrangements in place to ensure assets are revalued with sufficient frequency so that the carrying value is not materially different from current value. These arrangements include arranging for revaluations on a more frequent basis than that required by the rolling programme to ensure management has assurance that the value of Property, Plant and Equipment, in overall terms, is materially correct. Additionally, management consult relevant indices to assess whether the there is likely to have been a movement in asset values between the date of the most recent valuation and the Balance Sheet date. At our request, management provided an updated version of their assessment to consider of whether there had been any movement in the value of land and building between 1 April 2016 and 31 March 2017. This confirmed the movement was not material. **(ii) Recognition of Surplus Assets by Management** Our discussions with management have identified that the Council does not currently have a formal process in place to identify assets which meet the definition of a 'surplus asset', as set out in the Code. At our request, management reviewed the asset base and identified one individually significant asset - an area of land set aside for the potential development of residential property - which met the definition of a surplus asset. The required adjustments have been made to disclose this asset as 'surplus' as part of the Property, Plant and Equipment note. We obtained specific assurances from the Council's valuer that the value of this asset, as at 31 Mach 2017, is fairly stated in the Balance Sheet. Management have provided assurances, as part of the letter of representation, that there are no other surplus assets which would be material to the Council, either individually or in aggregate. A more formal process for identifying surplus assets is to be introduced going forward.

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.	• We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. • We undertook procedures to confirm the reasonableness of the actuarial assumptions made. • We reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary.	We have not identified any concerns arising from this work to report to the Audit and Governance Committee.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle and Risk	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses/ creditors *- Creditors are understated or not recorded in correct period* (Completeness Assertion)	Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention.	• We have reviewed the systems and controls that the Council has in place to pay suppliers and record expenditure incurred; and • We have walked through controls relevant to the risk identified. • We undertook testing of a sample of payments made by the Council after the year-end to obtain assurance over the completeness of the Council's accruals	We have not identified any matters to the bring to the attention of the Audit and Governance Committee.
Employee remuneration *-Employee remuneration costs are understated* (Completeness Assertion)	Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention.	• We have reviewed the systems and controls that the Council has in place to ensure that its employees are paid the correct amount based on hours worked and their contractual entitlement, including arrangements to accrue for amounts outstanding but not yet paid at the year-end. • We have walked through the controls the Council has in place in relation to this risk. • We documented and walked-through the systems and processes operated by Capita which are relevant to this risk. Whilst the Council has brought payroll in house for the majority of service areas, Capita process payroll on behalf of most of the schools in the Borough. • We completed substantive testing of significant year end payroll accruals. • We performed analytical procedures to identify any discrepancies in monthly payrolls and consideration as to whether payroll expenditure is in line with our expectations based on supporting evidence. • We tested the reconciliation between the Council's payroll system and the amounts recorded in the general ledger and financial statements. For other payroll providers used by the Council we confirmed twelve monthly feeder files had been imported to the ledger and there were no apparent anomalies in the amounts posted.	We have not identified any matters to the bring to the attention of the Audit and Governance Committee.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	Management have prepared the primary statements in accordance with CIPFA Code requirements. As part of this exercise, gross income and expenditure has been presented in line with the Council's Directorate structure. This is the format used to present information to members during the year. Management have re-stated the prior year figures in line with the new format. The restated figures are material to the Council. Accounting standards require that where a material amount is restated, a prior period adjustment note should be prepared. Management's judgement for omitting the prior period adjustment is that the omission does not materially impact on users' understanding of the financial statements. We have discussed management's judgment with senior members of the Finance Team. As part of these discussions, we considered the format in which information regarding the restatement would need to be presented based on the Council's reporting structure. We have concluded that the we do not consider the omission to be a material issue. However, because the Council has not complied in full with accounting standards in relation to this, the Audit and Governance Committee need to assess whether they are content with management's judgment on this issue.

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue	Commentary
1.	**Shopping Centre Lease** • The Council has leased out the land on which the Mall shopping centre and car park is located. The lease is for 150 years and commenced in 1993. The lease is classified as a finance lease and the associated long-term debtor balance at 31 March 2017 was £26.278m. The income the Council receives from the lessor varies according to the rent received from tenants in the shopping centre.	The original lease was recognised in the Balance Sheet as part of the implementation of International Financial Reporting Standards in 2010/11. When posting the accounting entries relating to the lease, the Council made an assumption based on the income expected to flow to it in respect of each year of the lease. In recent years, the income recognised is substantially less than that forecast at the inception to the lease. This does not materially impact on the value of the finance lease debtor as this reflects the value of the asset which transferred in 1993. However, the value of the Council's unearned finance income in relation to the lease is based on forecast income. **Management response** • Additional disclosure has been added to the accounts to provide more information regarding the nature of the lease. Management will review the disclosure annually to confirm whether any adjustment to the value of unearned income disclosed is required.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's accounting policies set out its approach to review recognition. Income relating to the provision of services and or funding of Council activities is accounted for in the year in which the activity/service takes place. Council tax and income relating to non-domestic rates is accrued for in the year to which it relates. Adjustments are made in line with the applicable statutory overrides to recognise in the General Fund the amount permitted under the relevant regulations.	The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). The main elements of the Council's revenues are predictable and there is minimal judgement required by the Council. The accounting policy is appropriately disclosed in accounting policies section of the financial statements.	Green
Judgements and estimates	Key estimates and judgements include: – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Identification and classification of financial instruments – Provision for NNDR appeals – Other provisions – Group Accounting boundary – Accounting for pooled budgets	Having reviewed management's approach to producing accounting estimates and arriving at the judgments we consider to be significant to the accounts, we are satisfied that management has put appropriate arrangements in place. Our work in relation to the estimates produced by management in relation to property, plant and equipment and pension fund assets and liabilities is set out on pages 11 and 12 of this report respectively. In addition, we have considered: - management's decision to continue to classify its investments in money market funds as an 'Available for Sale' asset within the financial instrument disclosures - management's assessment that the Council does not need to produce Group Accounts - management's assessment that it has joint control with Blackburn with Darwen CCG of the Better Care Fund pooled budget We were satisfied that the judgment made in each of these areas was reasonable.	Green

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance and IT (S151 officer) has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	Green
Other accounting policies	The Council is required to review it accounting policies annually.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	Green

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period. • No other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. • We have not identified any incidences from our audit work.
4.	**Written representations**	• We draw your attention to the draft Letter of Representation which is included as part of the papers on the agenda for tonight's meeting. • Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for the provisions the Council has included in its accounts in respect of closed landfill sites.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the banks and other financial institutions with which the Council had outstanding balances at the year-end. This permission was granted and the requests were sent. • We are currently awaiting confirmations in relation to bank accounts held by schools but we have received all of the other confirmations we require.
6.	**Disclosures**	• We have identified a small number of adjustments and enhancements to disclosures which have been agreed with management.

Other communication requirements (continued)

	Issue	Commentary
7.	**Matters on which we report by exception**	We have not identified any issues we would be required to report by exception in the following areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of [£tbc] we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • This work has not yet been concluded. Arrangements are in place to conclude this work before we issue our opinion on the Council's financial statements
9.	**Audit evidence and explanations**	• All information and explanations requested from management was provided.
10.	**Significant difficulties**	• We did not encounter any significant difficulties during the audit.
11.	**Other matters**	• There are no other matters we need to report to you.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	[AMBER]	Our work on property, plant and equipment identified that the Council did not have a structured process in place to identify surplus assets. This is important as surplus assets are valued on a different basis to operational assets and, where material, additional disclosures are required in the statement of accounts.	• Introduce a process for maintaining and updating a record of assets meeting the definition of a 'surplus asset' in the CIPFA Code of Accounting Practice.
2.	[AMBER]	Our work on the Collection Fund identified that the provision the Council had calculated for potential reductions in rateable value arising from appeals submitted to the Valuation Office Agency was overstated. This was because the Council had not adjusted for circumstances where multiple appeals had been made by the same ratepayer.	• Review the basis of determining the provision for non-domestic rate appeals to ensure the treatment of multiple appeals for the same ratepayer is appropriate.
3.	[AMBER]	Our review of exit packages identified that the Council had not accrued for exit packages which had been agreed at the year-end as part of the Council's ongoing savings programme. The disclosure of exit packages in the financial statements was amended to include these.	• Update the year-end closure process to ensure adequate consideration is given to the need to accrue for redundancies or other exit packages agreed as at the Balance Sheet date.

Assessment

- [RED] Significant deficiency – risk of significant misstatement
- [AMBER] Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. No non-trivial adjustments impacting on the primary statements have been identified.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Reason for not adjusting
1	Our work on the Collection Fund identified that the provision for appeals against the rateable value determined by the Valuation Office Agency was overstated by £2,700,000. This was due to an error in the approach taken to adjust for duplicate appeals from the same ratepayer. In line with relevant regulations, the Council's share of this provision is 49% therefore the charge to the Comprehensive Income and Expenditure Statement is overstated by £1,323,000	Taxation and Non-Surplus Grant Income understated by £1,323,000	Long Term Liabilities – Provisions overstated by £1,323,000	The extent of the overstatement is immaterial and the figure used in the draft accounts has already been provided to the other precepting bodies (Lancashire Fire and Rescue Authority and Department for Communities and Local Government)
2	The Council has established a pooled budget arrangement with Blackburn with Darwen Clinical Commissioning Group as part of the Better Care Fund arrangements. The Council hosts the arrangement. In accordance with IFRS 12 the Council should only account for its share of income and expenditure. However, the Council has accounted for the full amount deposited in the pooled fund. The Council has accounted for the transactions to transfer funds from the Council to the CCG as gross expenditure. Consequently, gross income and gross expenditure are overstated.	Gross Income and Gross Expenditure overstated by £5,844,000	No impact	The extent of the overstatement is immaterial and has no impact on the outturn position of the Council.
	Overall impact	**£1,323,000**	**£1,323,000**	

Unadjusted disclosures

1) As noted on pg. 14 of this report, management do not propose to include a prior period adjustment disclosure in the financial statements to reflect the presentational changes to the comprehensive income and expenditure account introduced as part of the 2016-17 CIPFA Code of Accounting Practice. Given accounting standards require the inclusion of such a disclosure, the Audit and Governance Committee is asked to confirm it accepts management's decision not to include this disclosure on the basis that its omission does not materially impact on the users of the account's understanding of the Council's financial position and performance.

2) Note 13 to the accounts reports movements in the Council's Property, Plant and Equipment balance during the year. One aspect of the movements reported is amounts re-classified from one asset category to another. During the year management concluded the majority of the work on a major transport scheme known as Pennine Reach. There is a immaterial amount of spend incurred which has not been re-classified from assets under construction to operational assets as management do not currently have the necessary detailed to determine the asset category. We are satisfied this has no material impact. The balance of £2,346,262 remains in Assets Under Construction and will be re-classified during the 2017-18 financial year.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value	Note Affected	Impact on the financial statements
1	Disclosure	£5,900,000	Note 11 – Trading Operations	The deficit on trading operations disclosed in Note 11 was overstated by £5,900,000 as the expenditure reported included an amount reflecting the downward valuation of former market site, which had been charged to the Mall Market cost centre in error, and does not relate to current trading operations.
2	Disclosure	Various	Note 8 – Officers Remuneration	Regulation requires that senior officers whose remuneration exceeds £150,000 are named as part of the disclosure. Management had not included the name of the Deputy Chief Executive although her remuneration exceeded this threshold. Our testing also identified that the Chief Executive's remuneration was overstated as a benefit in kind of £4,000 had been disclosed in error.
3	Disclosure	£1,983,000	Note 14 – Capital Expenditure and Financing	The use of capital receipts to reduce the Council's indebtedness had not been disclosed as part of the breakdown in the movements in the Capital Financing Requirement
4	Disclosure	Financial Assets increase by £1,599,000 Financial Liabilities increase by £3,688,000	Note 26 – Financial Instruments	The Council had incorrectly excluded the Council's overdraft and debtor and creditor balances relating to public sector organisations from the disclosure of financial instruments. Adjustments to the note have been agreed and the prior-year comparator has also been adjusted (adjustments shown to the left refer to changes made to the disclosure of the position as at 31 March 2017)
5	Disclosure	£704,000	Note 26 – Financial Instruments	The fair value of the Council's market loans was understated by £704,000 due to a transposition error.

Misclassifications and disclosure changes (continued)

	Adjustment type	Value	Note Affected	Impact on the financial statements
6	Disclosure	£1,500,000	Accounting Policies (Estimation Uncertainty)	The disclosure relating to sources of estimation uncertainty has been revised to include the total of both depreciation and amortisation charged in the year. In the original version of the disclosure amortisation in relation to intangible assets totalling £1,500,000 was omitted.
7	Disclosure	£7,000,000	Note 13 – Property, Plant and Equipment	As reported on page 12, our work identified that the Authority had not recognised surplus assets held by the Council. Management have updated Note 13 to separately identify the surplus asset held by the Council.
8	Disclosure	£18,495,000	Note 13 -Property, Plant and Equipment	Our testing of re-classifications identified that completed work on infrastructure assets relating to the Pennine Reach scheme should have been transferred from the Assets Under Construction heading to operational assets. No revaluation of the associated assets was required as infrastructure assets are carried at depreciated historic cost in the Balance Sheet. As noted on pg. 23 management will complete work to re-classify an immaterial amount into the correct asset categories in the 2017-18 financial year.
9	Disclosure	N/A	Note 12 – Events After the Balance Sheet Date	We agreed with management that it would include a disclosure in its accounts reflecting the one-off payment in advance made to Lancashire County Council Pension Fund in April 2017.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan which we presented to the meeting of the Audit and Governance Committee held on 11 April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The progress made by management to develop and implement the £15M savings programme which forms part of the Council's Medium Term Financial Plan; and
- The work undertaken by management to update the Medium Term Financial Plan to take account of emerging pressures and changing assumptions.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 28.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk	Work to address	Findings and conclusions
Delivery of the Financial Plan In February 2016 the Council agreed measures to close the budget gap of almost £48 million over the period of the Medium Term Financial Strategy (MTFS) to 2019/20. Progress has been made during 2016/17 in the implementation of these measures including development and significant delivery of a savings programme and increases in income streams. However, the December 2016 revenue monitoring report set out that the Council continues to face significant financial pressures and is forecasting an overspend of approximately £1.683 million across all portfolios for 2016/17. The delivery of the required savings in 2016/17 and beyond represent a significant challenge to the Council.	• review the detail to support the required savings in 16/17 including financial and budget reporting to Members • assess the outturn position for 2016/17 and the budget plans for 2017/18 to 2019/20 • meet with key officers to discuss plans/proposals	The Council's financial position continues to be challenging. The Council has had arrangements in place for a number of years to drive changes to its models of service provision in order to reduce net expenditure to cope with sustained reductions in central government funding. For 2016/17 the Council's savings target was £13.8M. There were three principal elements to the target: • £6.7m related to the final year of a £15m programme of savings of started in 2014; • £3.6m of in-year savings; and • £3m of savings from the first year of the Council's workforce review programme which began in 2016/17. Management reported to members in the outturn report in July 2017 an overspend on cash-limited expenditure of £1.434m, equivalent to 1.25% of the budget. This was mainly due to continuing pressure on the Health and Adult Social Care directorate. This overspend has been funded from the Council's reserve balances. However, changes to the Council's minimum revenue provision policy, one-off government grant receipts and the release of contingencies meant that, even after covering this overspend, the unallocated reserve balance at the year-end was £1.2m more than that forecast in February 2017. Total unallocated reserves at 31 March 2017 are £6.189m. During the year, work has been undertaken by senior officers to develop robust mechanisms for making further savings. Internal project management support is in place across the Council to ensure savings plans are subject to appropriate review and challenge. For 2017/18, the workforce review is expected to generate savings of £6.278m which equates to 50% of the required savings for the year. However, internal reporting at March 2017 suggested this target will be challenging because some of the savings schemes are still at a relatively early stage of development. We understand management are continuing to assess whether the original savings can be realised or whether alternative savings schemes will need to be put in place. The Council recognises the challenges facing the Health and Adult Social Care directorate. The 2017/18 budget has therefore increased by £3m from the amount in the Medium Term Financial Strategy presented in February 2016. The demand and cost pressures facing the directorate mean that savings will still need to be found to contain expenditure within the budget allocated.

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Key findings (continued)

Significant risk	Work to address	Findings and conclusions
		The Council is working with its partners in the NHS to take forward changes in the wider system intended to reduce service users' level of dependency and make more effective use of the available resource. The Government announced a £3.590mill increase to the Improved Better Care Fund for 2017/18 in the Spring Budget, i.e. after the Council had set it's budget. This funding is non-recurring although amounts of £2.186mill and £1.081mill will be paid in 2018/19 and 2019/20 respectively but again on a non-recurring basis. The Council and Blackburn with Darwen CCG have been working together with health and adult social care colleagues across Pennine Lancashire to develop proposals to utilise this funding to meet increasing adult social care needs, to reduce pressures in the NHS and to stabilise the social care provider market across the borough. Given the financial pressures from increasing demand, management need to ensure that all directorates remain focussed on delivering the savings set out in the MTFS.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Public interest report**	• We have not identified any matters that would require a public interest report to be issued.
2.	**Written recommendations**	• We have not made any written recommendations that the Council is required to respond to publicly.
3.	**Application to the court for a declaration that an item of account is contrary to law**	• We have not used this duty.
4.	**Issue of an advisory notice**	• We have not used this duty.
5.	**Application for judicial review**	• We have not used this duty.

Section 5: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services charged from the beginning of the financial year, i.e. 1 April 2016 to 8 September 2017 and services in relation to the 2016-17 financial year which we have provisionally agreed with the Council to provide.

Fees

	Proposed fee £	Final fee £
Council audit	102,839	102,839
Grant certification	14,910	14,910
Total audit fees (excluding VAT)	**117,749**	**117,749**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services :	
• Independent reasonable assurance report in respect of 2015-16 Teachers Pensions Return (work completed November 2016)	4,200
• Independent reasonable assurance report in respect of 2015-16 Regional Growth Fund claim (work completed September 2016)	2,100
• Independent reasonable assurance report in respect of 2015-16 Transport Grant (work completed December 2016)	3,875
• Independent reasonable assurance report in respect of 2016-17 Regional Growth Fund claim (work completed June 2017)	2,350
• Independent reasonable assurance report in respect of 2016-17 Teachers Pensions Return (service agreed in principle, due to be completed by 30 November 2017)	4,200 (estimated)
Non-audit services:	
• Subscription to Grant Thornton's Place Analytics and Chief Finance Officer Insights software (three-year subscription agreed which commenced from 1 April 2017)	24,000 (for 2017-18 subscription)
Total Fee for Other Services	40,725

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks. The Council has no subsidiaries therefore the services provided below have all been provided to the Council.

	Fees	Threat identified	Safeguards
Audit related services			
Independent reasonable assurance reports in respect of: Teachers Pensions (2015/16 and 2016/17) Regional Growth Fund (2015/16 and 2016/17) Transport Grant (2015/16 only)	16,725	Self-Interest	The fees in respect of Teachers Pension are recurring at an estimated £4,200 per anum. The fees relating to the Regional Growth Fund and the Transport Grant are non-recurring for future financial years as the associated projects have now ended. Therefore, whilst the recurring nature of the fee for Teachers Pensions presents a self-interest threat this is not considered a significant threat to independence as the fee for this work of £4,200 in comparison to the total fee for the audit of £117,749, and in particular to GTUK's turnover overall. Further, the work is on audit related services. It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit services			
Subscription to Grant Thornton's Place Analytics and Chief Finance Officer Insights software	24,000	Self-Interest	This service is provided by a separate team within Grant Thornton UK LLP. There is no exchange of information relating to the audit between the two teams and therefore no impairment of auditor independence. The Council has agreed to purchase the service for a three-year period which also mitigates the degree of self-interest as there is no risk to the firm of the Council not renewing the subscription

- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been considered by the Audit and Governance Committee.
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Blackburn with Darwen Borough Council. The table summarises all non-audit services which were identified.
- The fees reconcile to the financial statements.

  fees per financial statements **£128,000**
  - 2016/17 Regional Growth Fund and Teachers Pensions work not accrued for as fees 'tbc' at point of closedown **£6,550**
  - 2017/18 Place Analytics and Chief Finance Officer subscription **£24,000**

  Total Fee as per above **£158,550**

This covers all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Independence and ethics

Independence and ethics

- Ethical Standards require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, manager. In this context, we disclose the following to you:
- Karen Murray is currently serving their sixth year on the engagement. As discussed and agreed with you, we will rotate Karen for the 2017/18 financial year because the firm's policy is that engagement leads on the audit of public interest entities are rotated every five years. For the 2016/17 audit approval was obtained from PSAA and the firm's Ethics Department that Karen's appointment could be extended for a further year. We have mitigated the familiarity threat by appointing a review partner. The review partner has not worked on the audit previously and their role is to review key judgements to ensure that the Engagement Lead has not been influenced by their familiarity with the Council.

- We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard
- We have received confirmation that the following experts used by the Council are independent:

  - Capita – provider of valuation services to the Council;
  - Arling Close – provider of treasury management expertise to the Council

Section 6: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Introduce a process for maintaining and updating a record of assets meeting the definition of a 'surplus asset' in the CIPFA Code of Accounting Practice.		We have already started to gather information through attendance at the Council's Asset Management Group. Surplus Assets category to be set-up as part of the implementation of the new Civica Asset Register Software	Information gathering has commenced Asset Register changes scheduled Jan-Mar 2018 Gaynor Simons, Deputy Finance Manager
2	Review the basis of determining the provision for non-domestic rate appeals to ensure the treatment of multiple appeals for the same ratepayer is appropriate.		The error in the provision calculation spreadsheet has been amended and an additional step added to the procedure note in order to ensure that the calculation excludes multiple appeals for the same ratepayer.	Completed Julie Jewson, Senior Finance Manager
3	Update the year-end closure process to ensure adequate consideration is given to the need to accrue for redundancies or other exit packages agreed as at the Balance Sheet date.		Added as a specific item on the closure timetable in order to ensure this is carried out in future	Completed Julie Jewson, Senior Finance Manager

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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REPORT OF:	**DIRECTOR OF FINANCE & I.T.**
TO:	**AUDIT AND GOVERNANCE COMMITTEE**
DATE:	**19th September 2017**

Approval of the Statement of Accounts 2016/17

1. PURPOSE

The report outlines the issues arising from the external audit of the Council's 2016/17 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication by 30th September 2017, as required by the Accounts and Audit Regulations 2015.

2. RECOMMENDATIONS

That the Audit Committee:

1. Notes the outcome of the audit of the Council's financial statements and the Value for Money conclusion as presented by Grant Thornton in their Audit Findings Report for 2016/17 (previous agenda item).
2. Approves the Statement of Accounts for 2016/17.
3. Approves the letter of representation from the Director of Finance & I.T. to the external auditors for which a draft is provided at Appendix 1, with the final version to be made available at the meeting.
4. Notes the future change to the timescales for approval and publication in 2017/18.

3. BACKGROUND

The Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by members prior to publication by the 30th September following the year to which they relate. This will enable the Audit Committee to review and approve the accounts, having considered the issues raised by the auditors in their Audit Findings Report.

The 2016/17 Draft Statement of Accounts was certified by the Director of Finance and I.T. on 14th June 2017, and subsequently published on the Council's website.

4. KEY COMPONENTS OF THE 2016/17 STATEMENT OF ACCOUNTS

Local authority accounts are complex due to the need to produce financial statements that address both an accounting framework and a legislative framework. This "dual accounting" approach requires some items to be accounted for in ways that do not reflect how the Council manages its budget.

Narrative Report – this introduction to the accounts includes a commentary by the Council on its economy, efficiency and effectiveness in its use of resources over the financial year. It also includes an analysis of the financial and non-financial performance of the Council in the financial year and of its position at the end of the year, together with a brief summary of the content of the

accounts.

Comprehensive Income and Expenditure Statement (page 21) - this statement shows the accounting cost in the year of providing services in accordance with the accounting framework provided by international reporting standards, rather than the legislative framework. The Council raises local taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Following changes in the 2016 Local Authority Accounting Code, the Council is no longer required to report the cost of individual services within the accounting statements in accordance with the format specified in the CIPFA Service Reporting Code of Practice (SeRCOP). Therefore, analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is now presented to reflect how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio cash limits.

Movement in Reserves Statement (page 22) - this statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and "unusable reserves". The statement draws together data from other parts of the accounts, as follows:

- the opening Balance Sheet figures,
- the results for the year as presented in the Comprehensive Income and Expenditure Statement, which are prepared in line with current accounting practices,
- the adjustments required to convert the amounts prepared on an accounting basis to the statutory amounts required to be charged to the General Fund for council tax setting purposes,

The financial performance of the Council is monitored during the year with budget variations being reported as soon as they are identified and the predicted level of reserves adjusted accordingly. The accounting position for the year, as reported in the Comprehensive Income and Expenditure Statement, is a deficit on the provision of services of £22.081 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows a reduction in General Fund reserves of £6.150 million in 2016/17, compared to a budgeted use of reserves of £3.217 million when the annual budget was approved in February 2016. This final revenue outturn position was reported to the Executive Board on 13th July 2017.

A reconciliation of revenue outturn to the Comprehensive Income and Expenditure Statement is provided in Note 1 - Expenditure and Funding Analysis (pages 25-27), with further details of the accounting adjustments made in accordance with proper accounting practice in Note 3 (pages 30-31).

Balance Sheet (page 23) - this shows the value at the balance sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held by the Council, which are reported in two categories – usable and unusable.

The total amount of General Fund revenue reserves held by the Council at 31st March 2017 was £37.345 million. This comprises unallocated reserves of £6.189 million and other reserves which are earmarked and set aside for specific purposes of £31.156 million. This latter figure includes £10.644 million reserves held in respect of schools. Details of the movements in reserves are shown in Note 30 to the financial statements (pages 57-58).

The Other Long Term Liabilities line of the Balance Sheet, includes the Local Government pension scheme liability of £285.067 million and the long-term element of the liability in relation to the PFI contract for BSF Schools. The pension scheme liability represents the underlying commitments that the Council has in the long term to pay retirement benefits, however, the arrangements for funding means that the financial position of the Council remains healthy with the deficit being made good by increased contributions over the remaining work life of employees as determined by the scheme actuary.

Cash Flow Statement (page 24) - this statement shows the changes in cash and cash equivalents of the Council during the reporting period. It analyses cash flows into those generated

by operating activities, investing activities and financing activities. The detail of each category is contained within Note 32 (pages 68-69).

Notes to the Financial Statements (pages 25-74) – the order of the disclosure notes aims to provide a narrative that flows logically, with the initial notes providing information to support the Comprehensive Income and Expenditure Statement and an explanation of how that differs from the portfolio budget monitoring position presented throughout the financial year. Notes 12-32 provide further analysis of the amounts included in the Balance Sheet and Cash Flow Statement, and additional disclosures required by the Accounting Code follow at the end of the section. An index of the notes is included at page 2.

Collection Fund (pages 75-77) – this statement reflects the statutory obligation for billing authorities to maintain a separate fund for transactions in relation to the collection of council tax and non-domestic rates, and the distribution of those sums to the Council and other parties (i.e. central government, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority). The Collection Fund Income and Expenditure Statement reports a deficit for the year in respect of both council tax and non-domestic rates. The Fund balance carried forward in respect of both council tax and non-domestic rates will be taken into account when setting future years' budgets.

Accounting Policies (pages 78-95) – in addition to a summary of the main accounting policies used in producing the accounts, this section includes details of:

- accounting standards issued but not yet adopted
- significant judgements made in applying the accounting policies
- areas where a degree of uncertainty exists due to the use of estimated figures.

Annual Governance Statement – this statement was considered and approved by the Audit Committee in June 2017 and has been included within the Statement of Accounts at pages 96-110.

5. KEY ISSUES

2016/17 Statement of Accounts

The Audit Findings report has not identified any adjustments affecting the Council's reported financial position, and Grant Thornton are expecting to issue an unqualified audit opinion.

Although there are no amendments required to the core financial statements, a number of adjustments to the explanatory disclosure notes have been agreed to ensure full compliance with accounting practices and to improve the presentation of the financial statements. The most significant issues relate to:

- Note 8 Senior Officers Remuneration - the name of the Deputy Chief Executive should have been disclosed and the Chief Executive's remuneration was overstated by a small amount.
- Note 8 Termination Benefits - the version of this note presented for audit did not include accrued amounts for redundancies and other exit payments agreed but not paid at the Balance Sheet date.
- Note 11 Trading Operations - was overstated by £5.9 million as the expenditure reported included an amount reflecting the downward valuation of the former market site, which had been charged to the Mall Market cost centre in error, and does not relate to current trading operations
- Note 13 Property, Plant and Equipment (PPE) - the PPE categories required amendment to recognise a significant Surplus Asset, by reclassification from Operational Land and Buildings. Also, part of the Pennine Reach scheme was reclassified from Assets Under Construction to Operational Land and Buildings.
- Note 14 Capital Expenditure and Financing - the use of capital receipts to reduce the

Council's indebtedness was not shown in the breakdown of the movements in the Capital Financing Requirement.

- Note 26 Financial Instruments - the audit team requested a number of changes to the classification and presentation of these disclosures in order to comply fully with accounting guidance.
- Accounting Policies - Estimation Uncertainty - the disclosure in relation to estimates for depreciation and amortisation of non-current assets only referred to the amount of depreciation charged in year, rather than both depreciation and amortisation - an understatement of £1.5 million.
- A small number of changes were made to improve the Narrative Report and other disclosure notes.

In addition, there were three items raised by the Auditor that were unadjusted in the Statement of Accounts

- Within the Collection Fund, the accounting provision for appeals against the rateable value determined by the Valuation Office Agency was overstated by £2.7 million. This was due to an error in the approach taken to adjust for multiple appeals in respect of the same property. As the figure used in the draft accounts had already been provided to the other precepting bodies (Lancashire Fire and Rescue Authority and central government) and was considered immaterial in the context of the accounting statements, it was agreed not to adjust for this error.
- The Council does not propose to include a prior period adjustment disclosure in the financial statements to reflect the presentational changes to the Comprehensive Income and Expenditure Account introduced as part of the 2016-17 accounting code changes on the basis that its inclusion would not add to the reader of the account's understanding of the Council's financial position and performance.
- In relation to the Council's Better Care Fund (BCF) pooled budget arrangement with Blackburn with Darwen Cliniical Commissioning Group (CCG), the Council should only account for its share of income and expenditure. However, the accounts include the full amount of BCF deposited in the pooled fund as income, and the transactions to transfer funds to the CCG as gross expenditure. As a result both income and gross expenditure have been overstated, although there is no impact on the outturn position of the Council.

The Council has agreed to expand its capital accounting processes, particularly in relation to maintaining and updating a record of assets meeting the definition of a "surplus asset" in the CIPFA Accounting Code of Practice.

2017/18 Statement of Accounts

From 2017/18, the timescales in relation to the signing, approval and publication of the statement of accounts, as specified in the Accounts and Audit Regulations 2015, will change. The relevant dates specified below all relate to the financial year immediately following the end of the financial year to which the statement of accounts relates:

- The responsible financial officer must sign and date the statement of accounts, confirming that they present a true and fair view of the financial position of the Council at the end of the financial year to which it relates and the Council's income and expenditure for that financial year, **by 31st May**.
- The period for the exercise of public rights (of inspection of the accounts) must include the **first 10 working days of June**.
- Following the conclusion of the period for the exercise of public rights and the audit of the accounts, the Council's Audit and Governance Committee must consider the statement of accounts and approve them by a resolution of that committee **before 31st July**. The

responsible financial officer must re-confirm on behalf of the Council that they are satisfied that the statement of accounts presents a true and fair view before the Audit Committee approval.

- After approving the statement of accounts the Council must publish (which must include publication on the authority's website) the statement of accounts together with any audit certificate or opinion, the annual governance statement, and the narrative statement **by 31st July**.

6. POLICY IMPLICATIONS

Compliance with accounting standards is fundamental to the Council's organisational delivery priority of delivering a "fit for purpose" organisation.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising as a result of this report.

8. LEGAL IMPLICATIONS

The Accounts and Audit (England) Regulations 2015 apply for accounts and reports relating to the financial year 2016/17, and completion in accordance with International Financial Reporting Standards is required in order to comply with both the statutory framework established by the Accounts and Audit Regulations, and proper accounting practices required by Section 21(2) of the Local Government Act 2003.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising as a result of this report.

10. EQUALITY AND HEALTH IMPLICATIONS
Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 ☒ EIA not required – this has been discussed with Corporate Equality.

Option 2 ☐ In determining this matter the Executive Board members need to consider the Equality Impact Assessment (EIA) associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 ☐ Attached is a copy of the EIA which Executive Board members need to consider in advance of making the decision.

11. CONSULTATIONS
The closure of accounts process, and issues arising have been reviewed and discussed with the Council's external auditors, Grant Thornton, on a regular basis.

VERSION:	0.01
CONTACT OFFICER:	Julie Jewson
DATE:	11 September 2017

BACKGROUND PAPER:	Statement of Accounts 2016/17

Draft letter of representation.

Blackburn with Darwen Borough Council

Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Blackburn with Darwen Borough Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), which give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent,

b. none of the assets of the Council has been assigned, pledged or mortgaged,

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified

and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.

xiv The financial statements are free of material misstatements, including omissions.

xv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xvi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xvii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xviii We have communicated to you all deficiencies in internal control of which management is aware.

xix All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xxiii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.

xxv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

xxvi We have made appropriate enquires to assure ourselves that the provision required in respect of the closed landfill sites is not material.

xxvii We have made appropriate enquiries and are satisfied that the value of assets classified as surplus assets in Note 13 to the accounts is not materially misstated.

xxviii We have made appropriate enquires and are satisfied that there is no material impairment to the Council's non-current assets in light of rectification works which are likely to be required in respect of the use of external cladding

Annual Governance Statement

xxix We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Statement

xxx The disclosures within the Narrative Statement fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 19 September 2017.

The letter must be signed by both the Chair of the Audit and Governance Committee and the Director of Finance and I.T.

Blackburn with Darwen Borough Council

Statement of Accounts 2016/17

CONTENTS

CONTENTS

INDEX OF NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION BY THE DIRECTOR OF FINANCE & IT – Louise Mattinson

I am pleased to introduce you to the 2016/17 Statement of Accounts for Blackburn with Darwen Borough Council which, from a financial perspective, reflect what has been a very difficult and challenging year for the Council, requiring strong financial control and robust financial management.

The extension of the Government's austerity programme has led to a continuation of funding reductions for the Council in 2016/17 with further reductions confirmed for the next few years through to 2019/20. From a base of £183.1 million in 2010/11, funding has reduced to £118.4 million in 2016/17; a reduction of 35.3% which is projected to reach 40% by 2019/20. The actual reduction however is greater as over the period, the Council has had to absorb the costs of inflation (both pay and non-pay increases) and the costs of increasing demand.

Savings have been delivered through the Transformation Programme during 2010 to 2014 and a savings programme agreed by Council in September 2014 of approximately £26 million; however despite these measures, at the start of 2016 we had identified a budget gap of £48 million by 2019/20. In order to close the gap, proposals were presented to and agreed by Finance Council in February 2016 which included an increase in Council Tax in 2016/17 for the first time in 5 years of 1.99%, together with an additional increase of 2% to contribute to the escalating costs of Adult Social Care. Additional income of £840,600 was generated by the 1.99% increase in Council Tax, and a further £844,800 generated by the Adult Social Care precept. These increases alone however were insufficient to close the gap and as such a further savings programme was developed to deliver £23.8 million of savings by 31st March 2017 with a further £5 million by 31st March 2019. The programme included the final year of the September 2014 programme (£10.2 million), a further £3.6 million of additional savings in 2016/17 including reductions in Transport such as the retender of schools services and reductions in public transport subsidies, in Environment with the introduction of green waste charges and alternate weekly bin collections and in Revenues and Benefits with further savings identified in bringing these services back in-house. The balance of the programme was developed and delivered over the course of the year comprising;

- a Council-wide workforce review programme, reviewing all areas to streamline services, maximise the use of technology, drive efficiencies and to reduce staffing costs - £7.2 million
- cost reductions - £1.7 million
- service cuts - £0.6 million
- increases in income - £4.1 million
- alternative delivery models and service changes - £1.14 million

Successful delivery against the programme has assisted in providing financial stability in 2016/17 and a solid base to build on over the medium term.

Whilst addressing the reductions in funding and delivering the necessary savings required to close the budget gap during 2016/17, like many other Councils, we have also had to address the increasing cost pressures on the Adult Social Care budget which could not be contained within the allocated resource that had already been increased at the start of the financial year. Despite the efforts made, the portfolio ended the year with an overspend of £1.1 million. This trajectory of spend shows no sign of abatement for as life expectancy continues to increase, so do the demands faced in this area in terms of the volume of service users and for many, in the complexity of their needs. The Government has allocated funding to Local Authorities, via the Improved Better Care Fund, to bridge the gap and support the pressures within the NHS and Adult Social care however beyond 19/20 the continuation of this funding is uncertain. Blackburn with Darwen continues to work closely with health colleagues on both the Lancashire and South Cumbria footprint and Local Pennine Lancashire footprint to develop new models of care and integration of the Health and Social care economy.

Despite the reductions, we are continuing to work closely with our residents, partners and staff to prioritise resources and to seize opportunities to change the shape, scope and the way that we deliver

services. At Policy Council in December 2016 the Council pledged to stay ambitious and to tackle the financial challenges ahead introducing three key themes to underpin the agreed Council priorities to help ensure we continue to meet the needs of the people we serve. Examples of delivering on our commitment to these during 2016/17 are;

To support the promotion of the borough, along with cohesion and fairness;

- preparations began for the first national Festival of Making, directed by the designer Wayne Hemingway and dedicated to 'all things Making' taking its cue from the borough's history of manufacturing to showcase the work of local craftspeople and to highlight the world class firms that base themselves here
- opening of The Making Rooms, the borough's creative, digital and technological hub which boasts one of the country's biggest and best equipped 'Fab Labs' (Fabrication Laboratory)
- presentation of the Cathedral Quarter regeneration case study to the Northern Powerhouse Conference to highlight the benefits of investing in Blackburn with Darwen; the team behind the development have also won awards this year for their work on this, including the North West Property Award for Public Sector Team of the Year and also the Best Large Commercial Building at the Local Authority Building Control Building Excellence Awards.

To remain strong on partnerships, working with businesses and other public sector organisations, as well as residents and community groups;

- we continue to work with our colleagues in the NHS to establish a more integrated approach to providing health and adult social care both within the Lancashire and South Cumbria Sustainability and Transformation Programme (STP) and more locally across the Pennine Lancashire footprint.
- in July we commenced a new strategic partnership with Capita to deliver property, highways and transport services for the next 5 years, a 'place-based' partnership that will create new opportunities around the development of land, local assets and skills that will generate income and transform the area.
- during the year we have worked with Councils across Lancashire to establish a shadow Combined Authority and have made a formal submission to government for this, signaling a clear shift to work collaboratively across the county to deliver better outcomes for residents and businesses, creating higher growth and productivity, to raise attainment and aspirations and to play a key role in the Northern Powerhouse. This approach to joint working proved successful in the award of Government funding from the One Public Estates Programme to assist in creating better homes for residents, in opening up new areas for employment sites with potential to create hundreds of new jobs and for reviewing the utilisation of Council and other public sector accommodation across the Lancashire footprint.

To make use of technology and digital opportunities in all services;

- to maximise the use technology we have introduced several new systems across the Council including a new Revenues and Benefits system, launching paperless billing and online access to Council Tax details, and also a new Finance system and cash receipting system to streamline processes, deliver efficiencies and improve management information and financial reporting across the Council

As the financial statements demonstrate, despite the financial challenges faced during 2016/17, the Council remains on a firm financial footing. We remain committed to looking for ways to reduce costs whilst ensuring service delivery and resource are directed towards our priorities.

In concluding this foreword I would like to thank you for showing an interest in the Council's finances and hope you find this report useful. We are always looking to improve the way we present our financial information as we feel it is important for you as a resident or business in the borough to understand all of the services that we provide and how your Council Tax and Business Rates are spent during the year. If you have any suggestions as to how we can improve things in the future then please do not hesitate to get in touch with us

THE 2016/17 REVENUE BUDGET PROCESS

Through successive Autumn Statements and Spending Reviews the Chancellor has indicated that there will be spending cuts across public services until the public finances are in surplus, with public sector austerity likely to continue until at least 2019/20 as outlined in the Chancellor's Autumn Statement and Comprehensive Spending Review in 2015 and confirmed in the Local Government Finance Settlement of 9th February 2016. The Council's 2016/17 revenue budget, therefore, was prepared against the backdrop of a difficult economic climate which continues to impact upon businesses and citizens of the Borough, and which places pressure on Council services to respond. The Council's strategy has been to prepare a budget that will help to support those in hardship whilst encouraging the growth of jobs and businesses.

The key principles upon which both the Budget and the Medium Term Financial Strategy (MTFS) are based are:

- to balance the Council's budgets in each year of the MTFS period, ensuring that the Council has a sustainable and robust financial position in future years
- resourcing of services in line with Council priorities focusing on customer care and quality services against a backdrop of reducing resources
- planning for and managing change, whether related to need, demand for services, technological advances, legislation, local aspirations or resource allocation
- introducing a digital first approach to services whilst providing assistance and signposting to those who need it
- embedding a culture of value for money and efficiency savings (cashable and non-cashable) in all activities
- devolved budget management to Executive Members (with portfolio) and service Directors
- balancing Council Tax increases with funding cuts and budget pressures
- maximising resources whether through grants, creating additional income or partnering opportunities
- ensuring significant risks are identified and mitigated where possible
- ensuring financial reserves reflect levels of business risk
- optimising capital spending freedoms

The Council's Budget Strategy, including the proposals for the Revenue Budget 2016/17 and the MTFS and Capital Programme for 2016-20 were agreed at Finance Council on 29th February 2016.

Council Tax

Council tax levels remained frozen at their 2010/11 levels in Blackburn with Darwen for 5 years, in order to support residents in a very difficult financial climate however, given the significant financial pressures and challenges that the Council continues to face together with the removal of the Council Tax Freeze Grant the Council approved a council tax increase for 2016/17.

In December 2015, the Secretary of State for Communities and Local Government gave Adult Social Care authorities the option of being able to increase their relevant basic amount of council tax by an additional 2% without holding a referendum, to assist it in meeting expenditure on Adult Social Care functions. This 'offer' was subsequently confirmed to be available for the four years up to and including 2019/20, subject to conditions requiring the Council to evidence that the additional funds raised will be applied for Adult Social Care purposes.

For 2016/17, Finance Council agreed a council tax increase of 3.99%, of which 2% (£844,800) was to be spent exclusively on the delivery of Adult Social Care. Lancashire Combined Fire Authority and the Police and Crime Commissioner for Lancashire increased their precepts by 0% and 1.99% respectively.

The aggregate Council Tax calculation in relation to Band D properties for that part of the Borough having no Parish Councils was made up as follows:

	Council Tax requirement / Precepts £m	Band D Council Tax £
Borough Council's Council Tax Requirement	43.925	1,317.41
Lancashire Combined Fire Authority Precept	2.184	65.50
Lancashire Police and Crime Commissioner Precept	5.409	162.22
Total	**51.518**	**1,545.13**

Budget Monitoring

Revenue and capital budget monitoring information is reported to the Executive Board throughout the year. In addition, Treasury Management performance is also reviewed by Treasury Management Group and reported to Audit Committee.

CAPITAL STRATEGY AND CAPITAL PROGRAMME 2016/17 TO 2019/20

A capital programme for 2016-2020 of £53.3 million was agreed at Finance Council on 29th February 2016. The programme recognises the importance of investment in the Borough and the impact that the schemes themselves will have on the regeneration and economic growth of the area in the future.

The Capital Programme includes the following major infrastructure schemes:

- Pennine Reach – a major public transport scheme improving highways and transport infrastructure along the Accrington - Blackburn - Darwen corridor and linking in with the east-west and north-south railway lines, funded by Blackburn with Darwen Council, Lancashire County Council and the Department for Transport.
- Highways Network Recovery Scheme - a £10 million investment to improve the borough's highways infrastructure, the 4 year project includes resurfacing, reconstruction and surface sealing of principal and non-principal highways.
- Local Transport Plan – an annual investment programme to deliver priorities within the Council's long term transport policy covering the period 2011-2021.

These major infrastructure schemes will contribute towards the achievement of the Council's key priority of creating more jobs and business growth during their construction and in improving transport networks and enhancing the town centre.

The original capital programme for 2016/17 was agreed by Finance Council at £29.095 million (excluding provision for Vehicle and Plant replacements). As 2016/17 progressed, the initial plans were revised to incorporate expenditure re-profiled from the previous year, new assumptions, approvals and scheme updates, as information became available.

Financing of the original programme, was planned as follows:

Capital Financing	£000
Unsupported borrowing	(15,515)
Capital receipts	(2,100)
Contributions from revenue	(130)

Government grants	(11,320)
External contributions	(30)
Total	**(29,095)**

TREASURY MANAGEMENT STRATEGY

The *CIPFA Code of Practice on Treasury Management in the Public Services* requires the Council to approve a Treasury Management Strategy, including various Treasury Management Indicators, before the start of each financial year. This is followed up with a mid-year Strategy Review, considered alongside the Annual Outturn Report, summarising the position for the previous financial year.

The key requirements for the Council are to maintain its two investment priorities:

- For borrowing costs – to manage affordability in relation to the Council's overall budget and optimise the long term cost of debt financing.
- For the investment of surplus funds – to invest prudently, prioritising security and liquidity of investments over their yield (or return). Limits are set as to the level and duration of investments with different counterparties.

The Prudential Code provides a framework to ensure that the capital investment plans of the Council are affordable, prudent and sustainable. The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. The Council approves these indicators annually, together with the policy for setting a "prudent" level of debt repayment (or Minimum Revenue Provision), which much be consistent with the Council's Medium Term Financial Strategy.

FINANCIAL PERFORMANCE OF THE COUNCIL 2016/17

Revenue Outturn

The general fund revenue accounts represent the cost of meeting the annual expenses of carrying out the Council's duties and responsibilities to the community, most of which are of a statutory nature.

In 2016/17 the Council approved a revenue budget of £129.004 million. This represented approved net expenditure of £132.221 million (which includes parish precepts of £182,200) less a contribution from Council reserves of £3.217 million. The final outturn position for the year against the budget is set out in the table below by portfolio, together with the sources of funding.

	Original Estimate (after portfolio changes) £000	Revised Estimate £000	Actual £000	Variation from Revised £000
Net Expenditure				
Health and adult social care	41,096	41,942	43,030	1,088
Children's services	23,352	23,880	23,933	53
Environment	9,399	9,634	9,645	11
Leisure, culture and young people	4,575	5,331	5,290	(41)
Neighbourhood and prevention services	2,109	2,046	2,221	175
Regeneration	8,267	8,940	9,265	325
Resources	17,291	17,629	17,588	(41)
Schools and education (Non-DSG)	5,249	4,642	4,506	(136)
Portfolio budgets inside cash limits	**111,338**	**114,044**	**115,478**	**1,434**

Portfolio budgets outside of cash limits				
Depreciation and other capital charges to portfolios *	11,612	11,612	25,636	14,024
Support recharges to schools block	(2,004)	(2,004)	(2,004)	0
Net surplus on schools budgets **	0	0	864	864
Net portfolio expenditure	**120,946**	**123,652**	**139,974**	**16,322**
Contribution from schools for prudential borrowing	(650)	(650)	(650)	0
Contribution to capital expenditure	130	1,585	800	(785)
Interest and debt repayment *	11,251	10,802	(7,700)	(18,502)
Amounts to be allocated / contingencies	362	3,597	3,133	(464)
Parish councils	182	182	182	0
Total net expenditure	**132,221**	**139,168**	**135,739**	**(3,429)**
Contribution (from)/to reserves	(3,217)	(9,851)	(6,150)	3,701
Total net budget	**129,004**	**129,317**	**129,589**	**272**
Financed by:				
Non-ringfenced Government grants	(61,638)	(61,951)	(62,223)	(272)
Non-domestic rates	(22,928)	(22,928)	(22,928)	0
Council tax	(44,079)	(44,079)	(44,079)	0
Net deficit on Collection Fund	(359)	(359)	(359)	0
Total financing	**(129,004)**	**(129,317)**	**(129,589)**	**(272)**

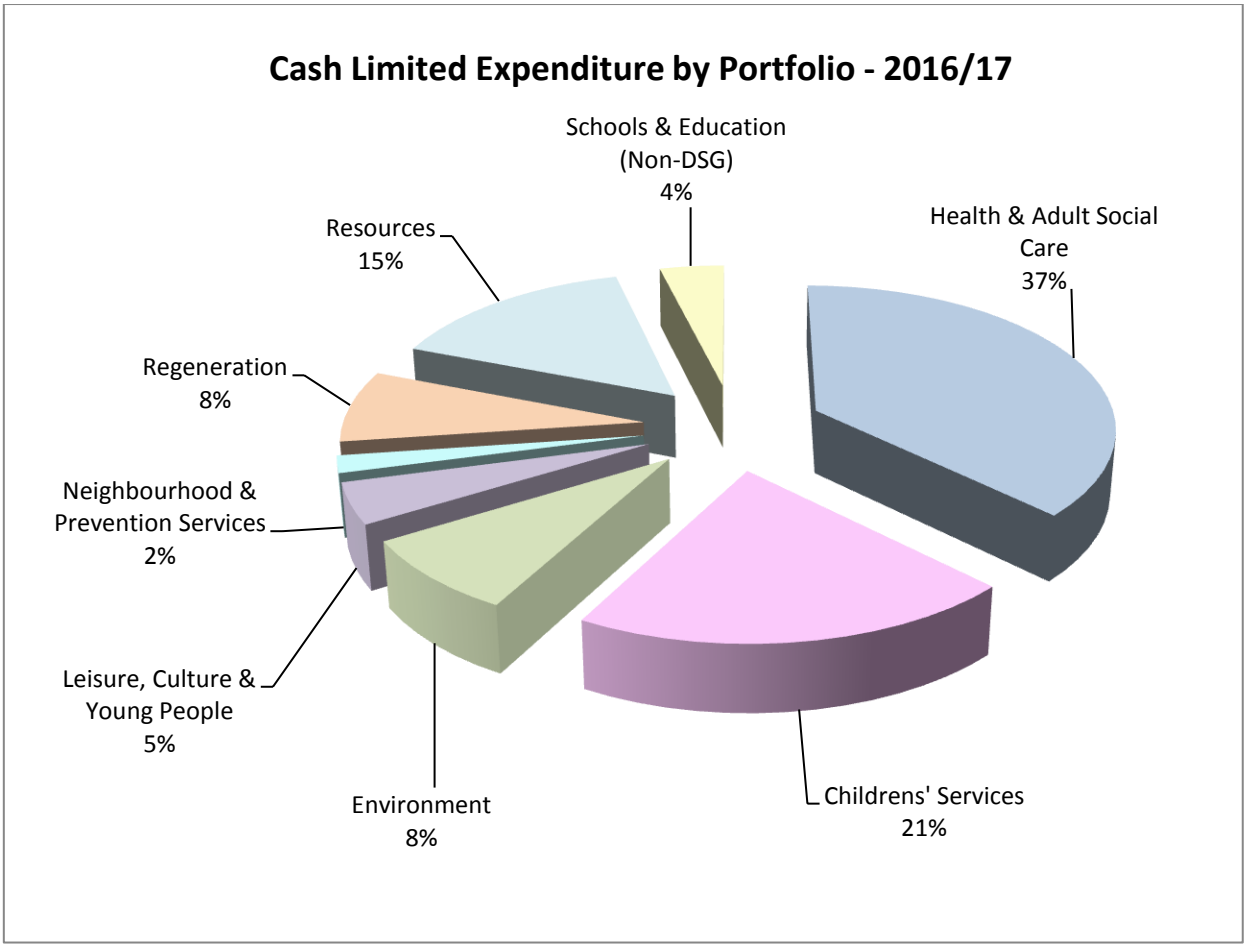
** The estimate for this item relates to depreciation only, whereas the actual includes other charges resulting from year end capital accounting processes (including impairment, revaluation losses and REFCUS expenditure), which will always result in a significant variation. These capital charges are "reversed out" in the Interest and debt repayment line.*

*** The net deficit of £864,000 comprises a deficit of £2.052 million from individual schools, offset by a surplus of £1.188 million in respect of centrally retained budgets.*

Portfolio cash limited budgets overspent by £1.434 million in total, which was largely funded by increased use of the council's reserves. The most significant variance was in relation the Health and Adult Social Care portfolio, which had reported pressures in the region of £1.2 million during the year due to the continuing upward trend in demand pressures and the increasing complexity of service needs impacting on commissioned services. Pressures across the commissioning budgets totalled around £1.8 million due to increased costs for residential, direct payments and a proportion of clients with very complex needs such as dementia, leading to higher costs. The portfolio mitigated some of the demand pressures through the use of the Better Care Fund contingency, managed staffing savings and through negotiation with Health in relation to Continuing Health Care (CHC) for complex needs service users. However not all of the pressures could be contained and the actual net position at the year-end was an overspend of £1.088 million against the cash limit. It should be noted, however, that the pressures on Adult Social Care budgets are not just a local issue; the pressures have been recognised nationally and the Government have allocated resources to Local Authorities from 2017/18 through the Improved Better care Fund.

Although reserves were used to fund the net portfolio overspending, unallocated reserves were increased by £4.5 million resulting from savings in respect of interest and debt repayment, and in particular due to the in-year change in the Minimum Revenue Provision (MRP) policy.

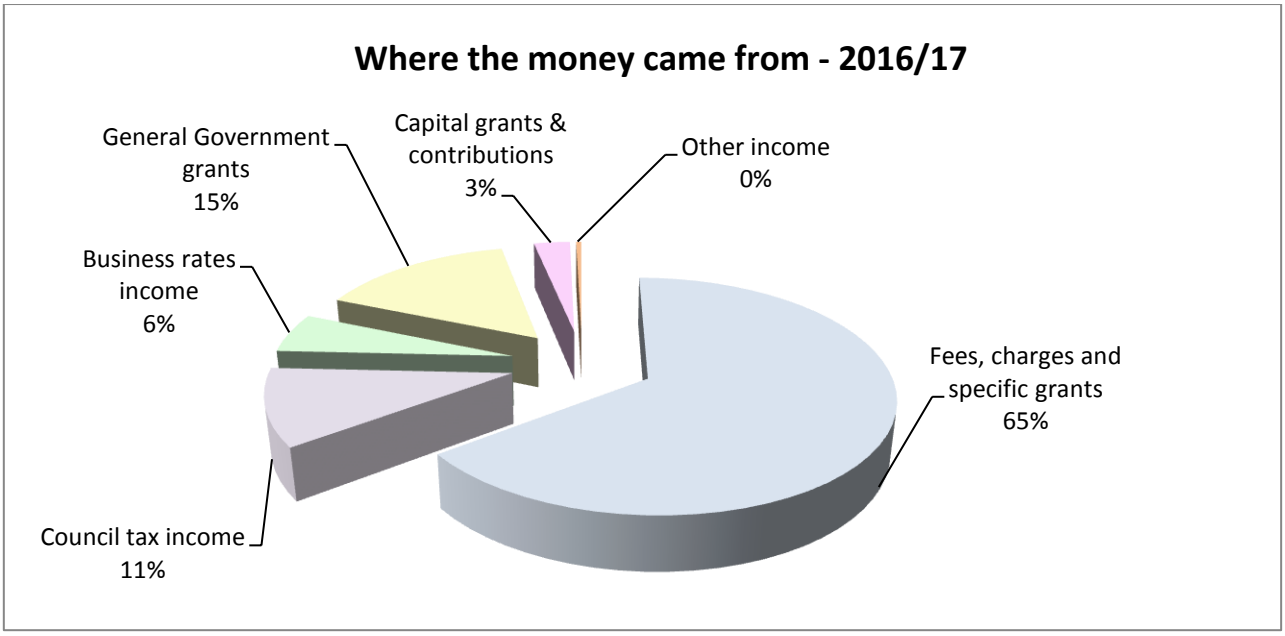
The net cash limited expenditure by portfolio for 2016/17 is shown in the chart below.

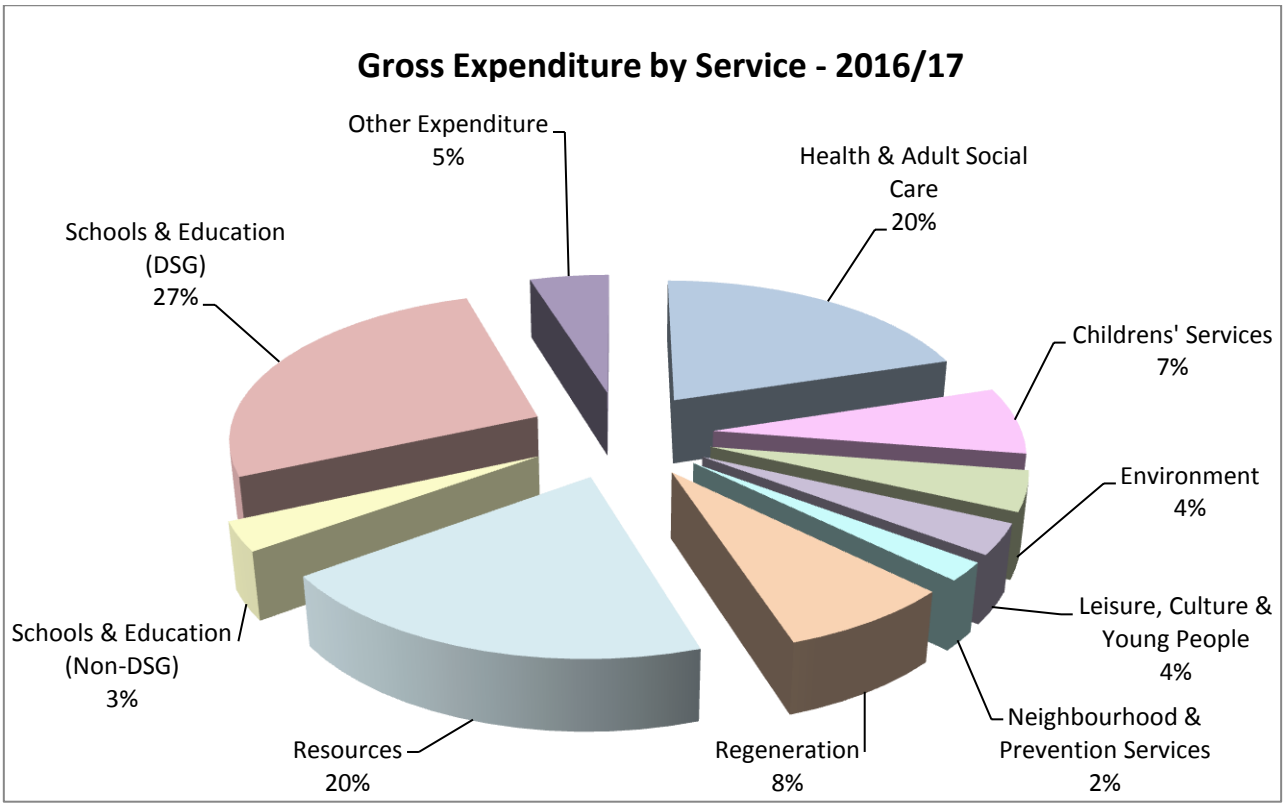


Decisions about resource allocation are taken by the Council's Executive Board on the basis of budgets analysed across portfolios as shown above. Portfolio cash limits are monitored and revised throughout the year and actual expenditure and income (revenue outturn) is measured against this revised budget at the financial year end. Budgets in relation to schools are held separately, outside the portfolio structure, under the heading *Schools and Education (DSG),* funded by Dedicated Schools Grant.

Following changes in the 2016 Local Authority Accounting Code, the Council is no longer required to report the cost of individual services, within the accounting statements, in accordance with the format specified in the CIPFA Service Reporting Code of Practice (SeRCOP). Therefore, analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is now presented on the basis of how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio cash limits. The new Expenditure and Funding Analysis (Note 1) explains the differences between the revenue outturn figures above and financial performance reported on the basis of proper accounting practices within the Comprehensive Income and Expenditure Statement.

The following charts are derived from the Comprehensive Income and Expenditure Statement and show where the money came from and how it was spent.





Capital Expenditure

Capital expenditure and income result from transactions in respect of the following:

- Buying or selling land or property
- Building new property
- Purchasing plant or equipment
- Significantly enhancing the value of our existing property
- Providing grants to others for the above

The approved portfolio capital programme for 2016/17 was £23.811 million, although additional approvals in year resulted in a revised programme of £32.256 million. Actual expenditure for the year was £22.892 million which is 71% of the revised programme.

	Approved Programme £000	Revised Programme £000	Actual £000	Variation from Revised £000
Capital Expenditure				
Health and adult social care	1,687	1,971	1,830	(141)
Children's services	517	460	78	(382)
Environment	2,969	781	799	18
Leisure, culture and young people	94	1,745	1,168	(577)
Neighbourhood and prevention services	1,521	3,457	2,472	(985)
Regeneration	6,304	14,209	12,357	(1,852)
Resources	5,143	2,798	2,268	(530)
Schools and education (Non DSG)	5,576	6,835	1,920	(4,915)
Total capital expenditure	**23,811**	**32,256**	**22,892**	**(9,364)**
Resources				
Unsupported borrowing	10,128	10,663	11,632	969
Capital receipts	2,100	2,158	0	(2,158)
Contributions from revenue	145	1,026	800	(226)
Government grants and external contributions	11,438	18,409	10,460	(7,949)
Total resources	**23,811**	**32,256**	**22,892**	**(9,364)**

The total variation at outturn compared to the last report approved by Executive Board is £9.364 million, of which £4.915 million relates to slippage on the Schools capital programme. Other major capital variations include:

- **Neighbourhood and Prevention Services portfolio** – £539,000 slippage relates to the Department of Energy and Climate Change (DECC) central heating fund scheme, which is to be completed by the end of May 2017.
- **Regeneration portfolio** – the Blakey Moor regeneration scheme budget of £3.547 million has been re-profiled across future years.
- **Regeneration portfolio** – an overspend of £2.39 million has arisen on the Pennine Reach scheme due to additional works required on the Bus Station and Furthergate sites.
- **Resources portfolio** - slippage on the Corporate ICT programme of £604,000.

The major schemes in 2016/17 are listed below together with the sources of financing.

Capital Expenditure	**£000**
Health and adult social care	
Disabled facilities grant	1,423
Environment	
Alternate weekly waste collections	446
Replacement Pay and Display machines	250
Leisure, culture and young people	
Making Rooms refurbishment	610

Neighbourhood and prevention services	
Department of Energy and Climate Change (DECC) Central Heating Fund	1,705
CCTV Hub	574
Regeneration	
Pennine Reach infrastructure	4,499
Highways Network Recovery	3,283
Local Transport Plan	2,449
Redevelopment of former Blackburn Market site	862
Cathedral Square office block	387
Resources	
Corporate ICT	1,034
Blackburn Town Hall stonework	402
Freckleton Street property acquisitions	350
Schools and education	
Crosshill school	328
Newfield school	326
Lammack primary school	270
Other schemes	3,694
Total	**22,892**

Capital Financing	**£000**
Unsupported borrowing	(11,632)
Contributions from revenue	(800)
Government grants and external contributions	(10,460)
Total	**(22,892)**

Capital Commitments

At 31 March 2017 the Council had entered into numerous contracts for the construction or enhancement of property, plant and equipment in 2017/18 or future years.

Contractual commitments include:

- Design, development and construction of the Newfield school - £4,863,799
- Single site rationalisation and construction of a two storey extension at Cedars School - £1,044,000

In addition, the Council has commitments to compensation payments in relation to the clearance of former residential sites within the area development framework. The estimated value of these commitments is £260,000. These have been provided for in the 2017/18 capital programme.

Treasury Management

The Council's investment balances averaged around £20 million, peaking at almost £44 million and dropping to around £22 million at the end of the year. The highest cash levels were at various points in February and March, as short term loans were taken in the run up to year end, and in anticipation of a high borrowing need early in the following year. Funds were generally either kept on call, or in relatively short term investments, resulting in low returns. Interest earned was around £65,000 at an average rate of 0.30%.

Excluding the nominal debt associated with schools Private Finance Initiative (PFI) schemes, the Council's long term debt fell from £135 million to £128 million, with £57 million in short term loans across the end of the year taking the closing total up to £185 million. Interest on financing this debt cost the Council approximately £5.9 million (down from £6.4 million in 2015/16), with another £0.3 million interest cost on the £16.5 million of debt managed on the Council's behalf by Lancashire County Council.

Excluding the schools PFI element, the Council's Capital Financing Requirement (CFR) - the long term borrowing need to cover capital spending not financed from other sources - increased from £227 million to £232 million. The Council's long term borrowing was £87 million below its CFR at year end. The Council has continued to use its overall cash position, and cheaper short term borrowing, to make significant savings in borrowing costs. Interest costs are expected to remain low for the near future, but it is possible that borrowing will cost more at some point in future years, adding to budget pressures.

In 2016/17 the Council reviewed its MRP (Minimum Revenue Provision) Policy, which determines how it will make a prudent charge for debt repayment in the accounts. The change was to more closely align the revenue costs of acquiring capital assets with the economic benefits received over the life of those assets. As a result, the MRP charge to revenue will be lower in in earlier years, so the CFR will be higher than it would otherwise be (and total interest costs higher), but there will be a significant net saving for the first two decades, with increasing net costs thereafter. The net saving in 2016/17 was in excess of £4 million.

Pension Fund Liability

The pension fund liability at 31 March 2017 as estimated by the fund actuary was £285 million compared to £205 million at 31 March 2016. This liability represents the underlying commitments that the Council has to pay retirement benefits. The variation between years was due to changing assumptions by the actuary. The liability represents the value at a point in time, and as the fund assets are mainly invested in equities and bonds the value of these and, therefore, the pension liability can vary as market values change.

Further details on post-employment benefits are provided in Note 31.

NON FINANCIAL PERFORMANCE

Blackburn with Darwen continues to benefit from significant investment in its town centres and the wider area – aiming to improve opportunities and the quality of life for residents. Achievements during the year have included:

- One Cathedral Square was named the best commercial property in the North West at the Royal Institution of Chartered Surveyors (RICS) Awards. The £30million office building within Blackburn Cathedral Quarter claimed the prize at The Titanic hotel in Liverpool. Blackburn Town Hall was also shortlisted in the building conservation category and the Cathedral Quarter competed in the regeneration category.
- In December 2016, Blackburn's high street was crowned best in the country in the Great British High Street competition. Blackburn won the 'Best Town Centre' award and scored well enough to take home the crown for the 'Great British High Street of the Year Award' beating 26 other finalists.

- The Royal Institute of British Architecture (RIBA) announced in March 2017 that the Blackburn Bus Station has been shortlisted for the prestigious RIBA North West award. Completed in April 2016, the station forms part of the Pennine Reach rapid bus transport scheme which aims to improve public transport connectivity within East Lancashire, reduce journey times, and improve passenger facilities.
- The new CCTV Hub has been funded following a successful bid to DCLG, with further funding from Police Innovation Fund and the Police and Crime Commissioner. This move has allowed the closure of three CCTV control rooms based in Blackburn, Burnley and Preston, enabling a reduction in staffing levels and associated cost, at the same time allowing for the Control room to be staffed continuously. The result is a greater CCTV monitoring presence across East Lancashire.
- Witton Park was voted one of the top 3 parks in the country for its athletics provision and activities aimed at increasing participation at the 2017 Fields in Trust Awards.

The Council is also continuing to focus on its three year health and wellbeing strategy, which sees the Council aiming to integrate health, safeguarding and care services for the benefit of residents. Achievements in these areas include:

Heath and Adult Social Care

- The Council's Wellbeing Service recently picked up an award for Transformation in Health and Social Care from the public sector improvement organisation iESE (Improvement and Efficiency Social Enterprise). The award came in recognition of the Service's success in improving the health of residents whilst utilising resources more effectively.
- The Care Quality Commission (CQC) has recognised Blackburn with Darwen as one of the best areas for the standard of its care homes, with the borough coming twelfth in the national examination of standards.
- A further five residential homes were deemed to have met the criteria of 'Enhanced Quality' in Blackburn with Darwen's Quality Assurance Scheme, meaning that there is now a total of 12 Enhanced Quality homes in the borough (out of 21 assessed).
- The newly opened Eachstep was awarded Britain's best dementia care home in November 2016 with their Registered Manager also collecting the Best Dementia Care Manager award.
- Tremendous work in managing Adult Social Care pressures, including dealing effectively with discharges from hospital and the integration of services through the Better Care Fund.
- New developments – including Extra Care and Intermediate Care facilities at Albion Mill and new learning disability supported living schemes at Garden Street and Balmoral Close.

Children's Services / Schools and Education

- Blackburn with Darwen's Problem Solving Court has won a Youth Justice Award at the prestigious Children and Young people (CYP) Awards and it has also been the focus of a major profile in CYP magazine and named as a shining example of best practice in helping young people who are appearing in court.
- Performance in the key Youth Justice Service indicator - first time entrants - is better than national, regional or similar authority averages.
- 88% of children within the borough are attending an OFSTED rated good or better school, compared with the most recent nationally reported figure of 87% (as at end of February 2017); and a regional average of 86%.
- Academic performance across all Key Stages are strong - GCSE progress is the best in the North & Midlands; performance in Mathematics is strong across all Key Stages; Level 3 Qualifications at 19 years are above the national average.

- Children living in the most deprived 30% of areas locally make better academic progress on average than young people living in similar areas nationally
- The percentage of Blackburn with Darwen care leavers in Higher Education is twice the national average (14%, compared with 7% for care leavers in England as a whole).
- Progress made by students with identified SEN during their time in Blackburn with Darwen schools is stronger than that of their national peers.
- The local authority's Virtual School, which works to ensure that children in public care get the best possible support with their education, has teamed up with St Cuthbert's CE Primary and Lancashire Care NHS Foundation Trust to develop an Adverse Childhood Experiences (ACE) pathfinder project. Learning from the project is being developed into a programme to use with a wider group of primary schools.

CONTENT OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts summarises the Council's transactions for the financial year 2016/17 and its position at the year end of 31 March 2017. It has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting which is based on International Financial Reporting Standards (IFRS).

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members, employees and other interested parties clear information about the Council's finances. It provides information on the following:

- The cost of the Council's services for the year
- Where the money came from
- What the Council's assets and liabilities were at the year end

CORE FINANCIAL STATEMENTS

The accounts consist of the following core financial statements supported by explanatory notes. An explanation of the purpose of each of the statements is given below.

Comprehensive Income and Expenditure Statement

This statement shows the Council's income and expenditure for the year on the basis of International Financial Reporting Standards (IFRS). This accounting cost is different from the statutory amounts charged to the General Fund balance for council tax setting purposes as it also includes transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year. The taxation position is shown in the Movement in Reserves Statement.

Movement in Reserves Statement

This statement shows the movement in year on the different reserves held by the Council analysed into usable (those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (those that hold unrealised gains and losses e.g. the Revaluation Reserve or those that hold timing differences e.g. the Collection Fund Adjustment Account).

The surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, as detailed in the Comprehensive Income and Expenditure Statement. A series of statutory adjustments are made as detailed in Note 3 (Adjustments between accounting basis and funding regulations), resulting in the net increase or decrease before transfers to earmarked reserves.

Balance Sheet

The Balance Sheet shows the value of the assets and liabilities of the Council as at 31 March. The net assets (i.e. assets less liabilities) are matched by the reserves held by the Council.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investment and financing activities.

Notes to the Financial Statements

These notes explain in more detail the individual items shown in the financial statements.

Collection Fund Statement and Notes

The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

Accounting Policies

This section includes details of the significant accounting policies and estimation techniques used in preparing the financial statements. Where a change in accounting policy is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied. Where this is the case, explanations are provided in respect of any changes being made to the figures presented in the previous year's financial statements.

STATEMENT OF RESPONSIBILITIES

This statement defines the responsibilities of the Council and the Chief Financial Officer in respect of the Council's financial affairs.

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance & I.T.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Director of Finance & I.T.'s responsibilities

The Director of Finance & I.T. is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA*)* Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance & I.T. has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local authority Code.

The Director of Finance & I.T. has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2017. They were authorised for issue by the Director of Finance & I.T. on 19th September 2017 and do not reflect any events occurring after this date.

L Mattinson
Director of Finance & I.T.
Blackburn with Darwen Borough Council
19th September 2017

Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit Committee on 19th September 2017.

S Sidat
Chair of Audit and Governance Committee
19th September 2017

INDEPENDENT AUDITORS' REPORT

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2015/16 (restated)				2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
82,072	(39,326)	42,746	Health and Adult Social Care	85,839	(42,334)	43,505
31,200	(4,455)	26,745	Children's Services	31,154	(6,026)	25,128
24,102	(7,800)	16,302	Environment	18,589	(8,189)	10,400
20,144	(7,913)	12,231	Leisure, Culture and Young People	14,345	(7,806)	6,539
9,232	(5,075)	4,157	Neighbourhood and Prevention Services	8,637	(4,217)	4,420
42,771	(31,535)	11,236	Regeneration	33,078	(11,103)	21,975
88,212	(62,373)	25,839	Resources	85,536	(61,870)	23,666
20,756	(5,193)	15,563	Schools and Education (non-DSG)	13,655	(4,670)	8,985
119,577	(121,061)	(1,484)	Schools and Education (DSG)	114,394	(115,691)	(1,297)
438,066	**(284,731)**	**153,335**	**Cost of Services**	**405,227**	**(261,906)**	**143,321**
		28,801	Other operating expenditure (Note 4)			456
		19,410	Financing and investment income and expenditure (Note 5)			18,446
		(152,832)	Taxation and non-specific grant income (Note 6)			(140,142)
		48,714	**(Surplus)/deficit on provision of services**			**22,081**
		(13,168)	(Surplus)/deficit on revaluation of non-current assets (Note 30)			455
		(46,316)	Remeasurement of the net defined benefit pension liability (Note 31)			71,374
		(59,484)	**Other comprehensive income and expenditure**			**71,829**
		(10,770)	**Total comprehensive income and expenditure**			**93,910**

The comparative figures in respect of 2015/16 have been restated to reflect changes in the 2016/17 Local Authority Accounting Code. The cost of services is no longer analysed in accordance with the format specified in the CIPFA Service Reporting Code of Practice (SeRCOP). The analysis of income and expenditure by service is now presented on the basis of how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio cash limits.

MOVEMENT IN RESERVES STATEMENT

	General Fund (b) £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves (Note 30) £000	Unusable Reserves (Note 30) £000	Total Reserves £000
Balance at 31 March 2015	**(50,165)**	**0**	**(3,417)**	**(53,582)**	**52,205**	**(1,377)**
Total comprehensive income and expenditure (a)	48,714	0	0	48,714	(59,484)	(10,770)
Adjustment between accounting basis and funding basis under regulation (Note 3)	(42,044)	0	(5,568)	(47,612)	47,612	0
Net (increase)/decrease	**6,670**	**0**	**(5,568)**	**1,102**	**(11,872)**	**(10,770)**
Balance at 31 March 2016	**(43,495)**	**0**	**(8,985)**	**(52,480)**	**40,333**	**(12,147)**
Total comprehensive income and expenditure (a)	22,081	0	0	22,081	71,829	93,910
Adjustment between accounting basis and funding basis under regulation (Note 3)	(15,931)	0	(3,064)	(18,995)	18,995	**0**
Net (increase)/decrease	**6,150**	**0**	**(3,064)**	**3,086**	**90,824**	**93,910**
Balance at 31 March 2017	**(37,345)**	**0**	**(12,049)**	**(49,394)**	**131,157**	**81,763**

The presentation of this statement has been streamlined in accordance with the 2016/17 Accounting Code. The changes in format are as follows:

a) Total Comprehensive Income and Expenditure from the Comprehensive Income and Expenditure Statement is presented as one line - on the basis that the columnar analysis of the usable and unusable reserves automatically separates the movements between the Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure, and

b) The General Fund column amalgamates the previous Earmarked reserves and General Fund balance, as the transfers between earmarked reserves are not a formal part of financial reporting and are not required by statutory prescription.

BALANCE SHEET

31 March 2016 £000		Note	31 March 2017 £000
417,295	Property, plant and equipment	13	412,695
19,335	Heritage assets	16	19,444
225	Investment properties	17	72
2,908	Intangible assets	18	2,158
795	Long term investments	19	786
28,222	Long term debtors	20	27,931
468,780	**Long term assets**		**463,086**
2,040	Short term investments	26	13,044
353	Inventories	21	307
16,420	Short term debtors	22	15,313
12,863	Cash and cash equivalents	23	14,300
31,676	**Current assets**		**42,964**
(2,812)	Bank overdraft	23	(1,771)
(38,217)	Short term borrowing	26	(70,741)
(37,511)	Short term creditors	24	(28,644)
(78,540)	**Current liabilities**		**(101,156)**
(3,885)	Provisions	25	(4,549)
(115,764)	Long term borrowing	26	(114,200)
(290,120)	Other long term liabilities	27	(367,908)
(409,769)	**Long term liabilities**		**(486,657)**
12,147	**Net assets**		**(81,763)**
(52,480)	Usable reserves	30	(49,394)
40,333	Unusable reserves	30	131,157
(12,147)	**Total reserves**		**81,763**

CASH FLOW STATEMENT

2015/16 £000		Note	2016/17 £000
(48,714)	Net surplus/(deficit) on the provision of services		(22,081)
85,148	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	25,038
(51,717)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	(15,507)
(15,283)	**Net cash flows from operating activities**		**(12,550)**
12,245	Investing activities	32	(13,533)
5,702	Financing activities	32	28,561
2,664	**Net increase/(decrease) in cash or cash equivalents**		**2,478**
7,387	Cash and cash equivalents at the beginning of the reporting period		10,051
10,051	**Cash and cash equivalents at the end of the reporting period**		**12,529**

1 EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis takes the net expenditure that is chargeable to taxation i.e. revenue outturn reported on the basis of statutorily defined charges to the General Fund, and reconciles it to the Comprehensive Income and Expenditure Statement.

2015/16				2016/17		
Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the Funding and Accounting Basis (Analysis below) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the Funding and Accounting Basis (Analysis below) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
41,521	1,225	42,746	Health and Adult Social Care	43,030	475	43,505
24,849	1,896	26,745	Children's Services	23,933	1,195	25,128
13,711	2,591	16,302	Environment	9,645	755	10,400
6,464	5,767	12,231	Leisure, Culture and Young People	5,290	1,249	6,539
3,687	470	4,157	Neighbourhood and Prevention Services	2,221	2,199	4,420
5,278	5,958	11,236	Regeneration	9,265	12,710	21,975
18,703	7,136	25,839	Resources	17,588	6,078	23,666
5,199	10,364	15,563	Schools and Education (non-DSG)	4,506	4,479	8,985
0	(1,484)	(1,484)	Schools and Education (DSG)	0	(1,297)	(1,297)
119,412	**33,923**	**153,335**	**Cost of Services**	**115,478**	**27,843**	**143,321**
(112,742)	8,121	(104,621)	Other income and expenditure	(109,328)	(11,912)	(121,240)
6,670	**42,044**	**48,714**	**(Surplus)/deficit**	**6,150**	**15,931**	**22,081**

(50,165)			**Opening General Fund Balance at 1 April**	**(43,495)**		
6,670			**(Surplus)/deficit**	6,150		
(43,495)			**Closing General Fund Balance at 31 March**	**(37,345)**		

2016/17 Adjustments between the Funding and Accounting Basis	Adjustments for Capital Purposes (Note 1a) £000	Net change for the Pensions adjustments (Note 1 b) £000	Other Differences (Note 1 c) £000	**Total Adjustments £000**
Health and Adult Social Care	(15)	493	(3)	475
Children's Services	372	839	(16)	1,195
Environment	415	357	(17)	755
Leisure, Culture and Young People	830	439	(20)	1,249
Neighbourhood and Prevention Services	2,023	200	(24)	2,199
Regeneration	12,335	381	(6)	12,710
Resources	3,425	1,223	1,430	6,078
Schools and Education (non-DSG)	4,264	202	13	4,479
Schools and Education (DSG)	0	336	(1,633)	(1,297)
Net Cost of Services	**23,649**	**4,470**	**(276)**	**27,843**
Other expenditure and income from the Expenditure and Funding Analysis	(17,579)	4,312	1,355	(11,912)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**6,070**	**8,782**	**1,079**	**15,931**

2015/16 Adjustments between the Funding and Accounting Basis	Adjustments for Capital Purposes (Note 1a) £000	Net change for the Pensions adjustments (Note 1 b) £000	Other Differences (Note 1 c) £000	**Total Adjustments £000**
Health and Adult Social Care	647	568	10	1,225
Children's Services	997	884	15	1,896
Environment	2,182	403	6	2,591
Leisure, Culture and Young People	5,239	519	9	5,767
Neighbourhood and Prevention Services	128	337	5	470
Regeneration	5,634	332	(8)	5,958
Resources	5,102	632	1,402	7,136
Schools and Education (non-DSG)	10,228	134	2	10,364
Schools and Education (DSG)	0	1,800	(3,284)	(1,484)
Net Cost of Services	**30,157**	**5.609**	**(1,843)**	**33,923**
Other expenditure and income from the Expenditure and Funding Analysis	371	4,979	2,771	8,121
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**30,528**	**10,588**	**928**	**42,044**

1 a Adjustments for Capital Purposes – this column adds in depreciation, impairment, net REFCUS expenditure and revaluation gains and losses in the cost of services line of the Comprehensive Income and Expenditure Statement, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. This line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

1 b Net change for the Pensions Adjustments – this relates to the Local Government Pension scheme and involves the removal of pension contributions and the addition of *IAS 19 Employee Benefits* pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the Council to the Local Government Pension Fund as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure -** the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

1 c Other Differences - Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For Services** the other differences column recognises adjustments to the General Fund for the cost of compensated absences e.g. annual leave entitlement not taken by employees during the year. Items in relation to leases and investment property expenditure and income are adjusted between services and the Financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement.
- For **Financing and investment income and expenditure** adjustments also include timing differences for premiums and discounts and the impact of effective interest rate adjustments.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2 EXPENDITURE AND INCOME ANALYSED BY NATURE

2015/16				2016/17		
Net Cost of Services	Other expenditure and income	Total	Expenditure/Income	Net Cost of Services	Other expenditure and income	Total
£000	£000	£000		£000	£000	£000
			Expenditure			
155,153	0	155,153	Employee benefits expenses	154,250	0	154,250
256,392	0	256,392	Other services expenses	229,914	0	229,914
26,521	41	26,562	Depreciation, amortisation and impairment	21,063	8	21,071
0	21,189	21,189	Interest payments and other similar charges	0	20,104	20,104
0	242	242	Precepts and levies	0	244	244
0	28,559	28,559	Gain or loss on disposal of non-current assets	0	212	212
438,066	50,031	488,097	Total expenditure	405,227	20,568	425,795
			Income			
(51,131)	(7)	(51,138)	Fees, charges and other service income	(55,263)	(6)	(55,269)
0	(1,813)	(1,813)	Interest and investment income	0	(1,660)	(1,660)
0	(63,934)	(63,934)	Income from Council Tax and Non-Domestic Rates	0	(66,383)	(66,383)
(233,600)	(88,898)	(322,498)	Government grants and other contributions	(206,643)	(73,759)	(280,402)
(284,731)	(154,652)	(439,383)	Total income	(261,906)	(141,808)	(403,714)
153,335	**(104,621)**	**48,714**	**Surplus or Deficit on the Provision of Services**	**143,321**	**(121,240)**	**22,081**

Segment Reporting

	Health and Adult Social Care £000	Children's Services £000	Environment £000	Leisure, Culture and Young People £000	Neighbourhood and Prevention Services £000	Regeneration £000	Resources £000	Schools and Education (Non-DSG) £000	Schools and Education (DSG) £000	Total £000
2016/17										
Employee expenses	10,768	15,991	6,109	8,433	4,139	7,291	17,334	4,011	80,174	**154,250**
Other service expenses	75,118	14,801	12,065	5,086	4,474	13,542	65,175	5,432	34,220	**229,913**
Depreciation, amortisation and impairment	(47)	362	415	826	24	12,245	3,027	4,212	0	**21,064**
Total expenditure	**85,839**	**31,154**	**18,589**	**14,345**	**8,637**	**33,078**	**85,536**	**13,655**	**114,394**	**405,227**
Fees, charges and other service income	(11,970)	(4,105)	(8,166)	(7,042)	(1,097)	(9,857)	(5,318)	(4,318)	(3,390)	**(55,263)**
Government grants and other contributions	(30,364)	(1,921)	(23)	(764)	(3,120)	(1,246)	(56,552)	(352)	(112,301)	**(206,643)**
Total income	**(42,334)**	**(6,026)**	**(8,189)**	**(7,806)**	**(4,217)**	**(11,103)**	**(61,870)**	**(4,670)**	**(115,691)**	**(261,906)**
Net expenditure	**43,505**	**25,128**	**10,400**	**6,539**	**4,420**	**21,975**	**23,666**	**8,985**	**(1,297)**	**143,321**

2015/16										
Employee expenses	11,393	15,610	6,979	9,101	5,815	5,970	12,931	3,664	83,690	**155,153**
Other service expenses	70,597	14,710	15,017	5,803	3,388	33,556	70,179	7,255	35,887	**256,392**
Depreciation, amortisation and impairment	82	880	2,106	5,240	29	3,245	5,102	9,837	0	**26,521**
Total expenditure	**82,072**	**31,200**	**24,102**	**20,144**	**9,232**	**42,771**	**88,212**	**20,756**	**119,577**	**438,066**
Fees, charges and other service income	(11,681)	(2,396)	(7,732)	(7,162)	(1,175)	(8,514)	(4,774)	(4,109)	(3,588)	**(51,131)**
Government grants and other contributions	(27,645)	(2,059)	(68)	(751)	(3,900)	(23,021)	(57,599)	(1,084)	(117,473)	**(233,600)**
Total income	**(39,326)**	**(4,455)**	**(7,800)**	**(7,913)**	**(5,075)**	**(31,535)**	**(62,373)**	**(5,193)**	**(121,061)**	**(284,731)**
Net expenditure	**42,746**	**26,745**	**16,302**	**12,231**	**4,157**	**11,236**	**25,839**	**15,563**	**(1,484)**	**153,335**

3 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments made to the comprehensive income and expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Adjustments in 2016/17	Usable Reserves			Unusable Reserves
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	£000
Depreciation, impairment and revaluation losses of non-current assets (charged to the surplus or deficit on the provision of services)	(19,570)	0	0	19,570
Movements in the fair value of investment properties	(8)	0	0	8
Amortisation of intangible assets	(1,494)	0	0	1,494
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	13,524		(6,896)	(6,628)
Revenue expenditure funded from capital under statute (REFCUS)	(4,572)	0	0	4,572
Net gain or (loss) on sale or derecognition of non-current assets	(212)	(1,983)	0	2,195
Statutory provision for repayment of debt	5,455	0	0	(5,455)
Capital expenditure charged to the General Fund balance	800	0	0	(800)
Use of the capital receipts reserve - set aside to reduce the net indebtedness of the Council	0	1,983	0	(1,983)
Use of grants and contributions received in prior year to finance new capital expenditure	0	0	3,832	(3,832)
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash	(2)	0	0	2
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	51	0	0	(51)
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	(8,782)	0	0	8,782
Amount by which council tax income and non-domestic rate income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	(983)	0	0	983
Amount by which officer remuneration calculated in accordance with the Code (i.e. including an accrual for holiday pay) is different from amounts payable in the year in accordance with relevant statutory provisions	(138)	0	0	138
Total adjustments	**(15,931)**	**0**	**(3,064)**	**18,995**

Comparative adjustments in 2015/16	Usable Reserves			Unusable Reserves
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	£000
Depreciation, impairment and revaluation losses of non-current assets (charged to the surplus or deficit on the provision of services)	(25,139)	0	0	25,139
Movements in the fair value of investment properties	(41)	0	0	41
Amortisation of intangible assets	(1,382)	0	0	1,382
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	42,028		(7,045)	(34,983)
Revenue expenditure funded from capital under statute (REFCUS)	(27,143)	0	0	27,143
Net gain or (loss) on sale or derecognition of non-current assets	(28,559)	(9,690)	0	38,249
Statutory provision for repayment of debt	8,727	0	0	(8,727)
Capital expenditure charged to the General Fund balance	940	0	0	(940)
Use of the capital receipts reserve to finance new capital expenditure	0	9,690	0	(9,690)
Use of grants and contributions received in prior year to finance new capital expenditure	0	0	1,477	(1,477)
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash	(1)	0	0	1
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	50	0	0	(50)
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	(10,588)	0	0	10,588
Amount by which council tax income and non-domestic rate income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	(1,191)	0	0	1,191
Amount by which officer remuneration calculated in accordance with the Code (i.e. including an accrual for holiday pay) is different from amounts payable in the year in accordance with relevant statutory provisions	255	0	0	(255)
Total adjustments	**(42,044)**	**0**	**(5,568)**	**47,612**

Further information is provided in Note 30 which details the movements on unusable reserves.

4 OTHER OPERATING EXPENDITURE

2015/6 £000		2016/17 £000
181	Parish council funding	182
61	Levies	62
0	Payments to the Government – housing capital receipts	0
28,559	(Gains)/losses on the disposal of non-current assets	212
28,801	**Total**	**456**

5 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2015/16 £000		2016/17 £000
13,217	Interest and other similar charges	12,658
7,972	Pensions net interest and administration costs	7,446
(1,813)	Interest receivable and similar income	(1,660)
34	Income and expenditure in relation to investment properties and changes in their fair value	2
19,410	**Total**	**18,446**

6 TAXATION AND NON-SPECIFIC GRANT INCOME

The Council credited the following to the Comprehensive Income and Expenditure Statement.

2015/16 £000		2016/17 £000
(70,377)	Non-ringfenced Government grants	(62,223)
(18,521)	Capital grants and contributions	(11,536)
(88,898)	**Total non-specific grant income**	**(73,759)**
(41,918)	Council tax income	(43,848)
(22,016)	Non-domestic rates income	(22,535)
(152,832)	**Total**	**(140,142)**

The non-ringfenced Government grants and capital grants are analysed further in the following tables.

Non-ringfenced Government grants

2015/16 £000		2016/17 £000
(35,554)	Revenue support grant	(28,854)
(17,831)	Top-up grant (business rates retention scheme)	(17,979)
(2,417)	Compensation for loss of business rates income	(2,146)
(2,006)	Education services grant	(1,758)
(1,500)	New Homes Bonus grant	(1,746)

(1,007)	Benefits administration grant	(908)
(8,471)	Private finance initiative (PFI) revenue grant	(8,471)
(1,591)	Other	(361)
(70,377)	**Total**	**(62,223)**

Capital grants and contributions

2015/16 £000		2016/17 £000
(6,266)	Education capital	(6,352)
(8,689)	Transport	(3,449)
(2,242)	Energy and climate change	(52)
(918)	Other Government grants	(474)
(406)	Other contributions	(1,209)
(18,521)	**Total**	**(11,536)**

7 GRANT INCOME AND CONTRIBUTIONS CREDITED TO COST OF SERVICES

In addition to the non-ringfenced grants, a number of service specific or ringfenced grants were credited to the cost of services as detailed below.

2015/16 £000		2016/17 £000
(104,378)	Dedicated schools grant	(99,707)
(7,429)	Pupil premium grant	(6,779)
(14,084)	Public health grant	(15,726)
(54,711)	Rent allowances subsidy	(53,996)
(8,508)	Other government grants	(7,638)
(2,874)	Contributions from other local authorities	(2,438)
(12,292)	Contributions from other public sector bodies	(13,158)
(5,817)	Other contributions	(5,213)
(23,507)	Funding of REFCUS expenditure from grants and contributions	(1,988)
(233,600)	**Total**	**(206,643)**

In previous years the Council has identified a number of grants which have yet to be recognised as income as they have conditions attached to them that may require the monies to be returned to the giver. For 2015/16 and 2016/17 there are no such balances.

Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011.

The Schools Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2015/16 and 2016/17 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2015/16 before academy recoupment			**(142,093)**
Academy figure recouped for 2015/16			**37,715**
Total DSG after academy recoupment for 2015/16			**(104,378)**
Brought forward from 2014/15			**(8,065)**
Agreed initial budgeted distribution for 2015/16	**(27,821)**	**(84,622)**	**(112,443)**
Actual central expenditure relating to DSG	16,366	0	**16,366**
Actual ISB deployed to schools	0	84,622	**84,622**
Carry forward to 2016/17	**(11,455)**	**0**	**(11,455)**
Final DSG for 2016/17 before academy recoupment			**(145,280)**
Academy figure recouped for 2016/17			**45,573**
Total DSG after academy recoupment for 2016/17			**(99,707)**
Brought forward from 2015/16			**(11,455)**
Agreed initial budgeted distribution for 2016/17	**(30,673)**	**(80,489)**	**(111,162)**
Actual central expenditure relating to DSG	20,029	0	**20,029**
Actual ISB deployed to schools	0	80,489	**80,489**
Carry forward to 2017/18	**(10,644)**	**0**	**(10,644)**

8 OFFICERS' REMUNERATION

The Council is required to disclose remuneration for all employees earning over £50,000 with additional disclosures for senior officers. The number of other employees whose remuneration, excluding pension contributions, exceeded £50,000 during the year is set out in the following tables. The total of 154 includes 96 teachers (139 including 90 teachers in 2015/16).

No of Employees 2015/16	Remuneration Banding	No of Employees 2016/17
50	50,000 to 54,999	57
37	55,000 to 59,999	41
24	60,000 to 64,999	25
14	65,000 to 69,999	13
4	70,000 to 74,999	9
2	75,000 to 79,999	0
1	80,000 to 84,999	1
2	85,000 to 89,999	1
0	90,000 to 94,999	1
1	95,000 to 99,999	2
2	100,000 to 104,999	2
1	105,000 to 109,999	0
0	110,000 to 114,999	1
1	115,000 to 119,999	1
139	**Total**	**154**

The following tables provide an analysis by job title of the remuneration and employer's pension scheme contributions in respect of senior officers for 2016/17 and 2015/16. These posts are in addition to those included in the previous table.

2016/17

Postholder	Note	Salary, Fees and Allowances £000	Benefits in Kind £000	Compensation for Loss of Office £000	Total Remuneration excluding Pension Contributions £000	Pension Contribution £000	Total Remuneration including Pension Contribution £000
Chief Executive – Head of Paid Service (Harry Catherall)		163	0	0	163	19	**182**
Deputy Chief Executive – Denise Park		135	0	0	135	16	**151**
Executive Director People	1	110	0	0	110	14	**124**
Executive Director Place	2	39	0	30	69	6	**75**
Director of Adult Services		93	0	0	93	11	**104**
Director of Public Health		111	0	0	111	16	**127**
Director of Children's Services	3	125	0	0	125	15	**140**
Director of Environment & Leisure		91	0	0	91	11	**102**
Director of Localities & Prevention		93	0	0	93	11	**104**
Director of Growth & Prosperity		89	4	0	93	11	**104**
Director of Finance & IT		91	0	0	91	11	**102**
Director of HR, Legal & Corporate Services		91	4	0	95	11	**106**
Managing Director Growth Lancashire Limited (formerly Regenerate Pennine Lancashire Ltd)		84	0	0	84	10	**94**

1. The Executive Director People left the Council's employment with effect from the end of February 2017. Prior to that date the post holder was seconded to work on the *Together a Healthier Future Programme*, for which the NHS are due to reimburse the Council £100,800 in respect of the full costs of the post included above.

2. The Executive Director Place left the Council's employment with effect from 31st August 2016.

3. From February 2016, the Director of Children's Services became shared director of both Blackburn with Darwen Borough Council and Lancashire County Council's Children Services. As the post holder will continue to be employed by Blackburn with Darwen Council and subject to its terms and conditions of employment, the full costs of this post have been included in the note above.

2015/16

Postholder	Note	Salary, Fees and Allowances £000	Benefits in Kind £000	Compensation for Loss of Office £000	Total Remuneration excluding Pension Contributions £000	Pension Contribution £000	Total Remuneration including Pension Contribution £000
Chief Executive – Head of Paid Service (Harry Catherall)		149	0	0	149	18	**167**
Executive Director Resources		127	0	0	127	15	**142**
Executive Director People	1	115	0	0	115	14	**129**
Executive Director Place		109	0	0	109	14	**123**
Director of Adult Services		88	0	0	88	11	**99**
Director of Public Health		109	0	0	109	16	**125**
Director of Children's Services	2	102	0	0	102	12	**114**
Director of Environment & Leisure		86	0	0	86	10	**96**
Director of Housing & Localities		91	0	0	91	11	**102**
Director of Growth & Prosperity		87	3	0	90	11	**101**
Director of Finance & IT		88	0	0	88	10	**98**
Director of HR, Legal & Corporate Services		87	3	0	90	11	**101**
Director (Regenerate Pennine Lancashire)		80	0	0	80	9	**89**

1. The Executive Director People has been seconded to a new role working on the *Together a Healthier Future Programme* with effect from February 2016. The NHS has reimbursed the Council £18,400 in respect of the full costs of the post included above.

2. From February 2016, the Director of Children's Services became shared director of both Blackburn with Darwen Council and Lancashire County Council's Children Services. As the post holder will continue to be employed by Blackburn with Darwen Council and subject to its terms and conditions of employment, the full costs of this post have been included in the note above.

Termination benefits

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. The total cost of an exit package includes:

- All relevant redundancy costs – compulsory and voluntary
- Pension contributions in respect of added years (pension strain)
- Ex gratia payments
- Other departure costs (e.g. pay in lieu of notice, outstanding holiday pay)

	No. Compulsory Redundancies		No. Other Exit Packages		Total Number		Total Cost £000	
Banding	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**
0 to 20,000	62	22	70	99	132	121	615	779
20,001 to 40,000	9	3	18	16	27	19	698	521
40,001 to 60,000	0	1	3	9	3	10	294	472
60,001 to 80,000	2	0	1	2	3	2	131	140
80,001 to 100,000	1	0	0	0	1	0	188	0
100,001 to 150,000	0	0	0	2	0	2	0	245
Total	**74**	**26**	**92**	**128**	**166**	**154**	**1,926**	**2,157**

The total cost of termination benefits for 2016/17 shown in the table above includes £133,400 for exit packages that will be charged to the Council's Comprehensive Income and Expenditure Statement in 2017/18, although they were agreed prior to 31 March 2017.

9 MEMBERS' ALLOWANCES

2015/16 £000		2016/17 £000
521	Allowances payable to Members	510
10	Expenses payable to Members	4
531	**Total**	**514**

10 EXTERNAL AUDIT COSTS

The Council incurred the following fees relating to external audit.

2015/16 £000		2016/17 £000
103	Fees incurred with regard to external audit services provided by Grant Thornton	103
15	Fees incurred for the certification of grant claims and returns by Grant Thornton	15
8	Fees incurred for other audit work undertaken by Grant Thornton	10
0	Rebate of fees from Public Sector Audit Appointments (PSAA)	0
126	**Total**	**128**

Fees incurred for other audit work undertaken relate to the provision of reasonable assurance reports as required by central government.

11 TRADING OPERATIONS

Trading operations included within the cost of services are the markets operations in both Blackburn and Darwen. The expenditure and income in relation to these trading operations is included within the Regeneration portfolio.

2015/16 £000		2016/17 £000
(1,475)	Turnover	(1,445)
2,542	Expenditure	2,380
1,067	**(Surplus)/deficit**	**935**

12 EVENTS AFTER THE BALANCE SHEET DATE

Events may occur between the balance sheet date and the date the accounts are authorised for issue which are indicative of conditions that arose after the reporting period. The Statement of Accounts is not adjusted to reflect such events, but disclosure is required of the nature of the events and their estimated financial effect.

On 27 April 2017 the Council took advantage of the option provided by the pension fund to make a one off payment in advance to cover its deficit recovery payments for the three years 2017/18 to 2019/20. The value of the payment totalled £13.5 million and resulted in a saving to the Council of £0.9 million.

13 PROPERTY, PLANT AND EQUIPMENT

All operational land and buildings are revalued on a 5 year rolling programme by Capita Plc, property consultants to the Council, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). All properties within the same category, e.g. industrial estates, are revalued in the same year, which ensures that valuations are consistent across the category.

In order to provide assurance that the value of assets in the Council's Balance Sheet is not materially different from the amount that would be given by a full valuation of all operational land and buildings each year, the Council discusses local market forces with the valuer and commissions additional valuations where appropriate, for example:

- where new construction or significant enhancement of assets has completed during the year;
- where the annual impairment review indicates other changes in valuation due to specific circumstances;
- where individual assets of significant value that have not been valued for some time.

In addition, a calculation of the potential variance in the Balance Sheet values of the remaining operational land and buildings, not subject to revaluation during the financial year, is done by applying Indices to calculate the potential cumulative percentage change from each year up to the current year. This assessment uses Construction Price and Cost Indices – All construction, as produced by the Office for National Statistics (ONS). The result of the assessment did not lead to a change in the values used within the Council's Balance Sheet.

The basis of valuation is set out in the accounting policies.

Movements in the property, plant and equipment valuations are detailed in the following tables:

Property, plant and equipment - movements in 2016/17

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets included in property, plant and equipment £000
Cost or valuation								
At 1 April 2016	**259,334**	**26,538**	**135,771**	**7,479**	**0**	**35,753**	**464,875**	**23,866**
Additions	3,204	1,136	6,292	12	0	7,210	17,854	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,759)	0	0	0	0	0	(2,759)	15
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(5,497)	0	0	0	0	0	(5,497)	(312)
Derecognition – disposals	(2,318)	0	0	0	0	0	(2,318)	0
Assets reclassified	9,396	0	20,100	18	7,000	(36,811)	(297)	0
At 31 March 2017	**261,360**	**27,674**	**162,163**	**7,509**	**7,000**	**6,152**	**471,858**	**23,569**
Accumulated depreciation and impairment								
At 1 April 2016	**(13,667)**	**(9,508)**	**(24,405)**	**0**	**0**	**0**	**(47,580)**	**(3,172)**
Depreciation charge	(4,968)	(3,026)	(2,312)	0	0	0	(10,306)	(399)
Depreciation written out to the Revaluation Reserve	4,270	0	0	0	0	0	4,270	0
Depreciation written out to the surplus/deficit on the provision of services	2,769	0	0	0	0	0	2,769	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	(2,075)	0	0	0	0	0	(2,075)	0
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services	(6,536)	0	0	0	0	0	(6,536)	0
Derecognition – disposals	132	0	0	0	0	0	132	0
Other movement in depreciation and impairment	0	163	0	0	0	0	163	
At 31 March 2017	**(20,075)**	**(12,371)**	**(26,717)**	**0**	**0**	**0**	**(59,163)**	**(3,571)**
Net book value								
At 1 April 2016	**245,667**	**17,030**	**111,366**	**7,479**	**0**	**35,753**	**417,295**	**20,694**
At 31 March 2017	**241,285**	**15,303**	**135,446**	**7,509**	**7,000**	**6,152**	**412,695**	**19,998**

Property, plant and equipment - comparative movements in 2015/16

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets included in property, plant and equipment £000
Cost or valuation								
At 1 April 2015	**292,169**	**25,729**	**111,435**	**7,479**	**0**	**38,541**	**475,353**	**48,188**
Additions	8,606	809	17,871	0	0	10,379	37,665	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	11,334	0	0	0	0	0	11,334	0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(19,776)	0	0	0	0	0	(19,776)	178
Derecognition – disposals	(39,375)	0	0	0	0	0	(39,375)	(24,500)
Assets reclassified	6,376	0	6,465	0	0	(13,167)	(326)	0
At 31 March 2016	**259,334**	**26,538**	**135,771**	**7,479**	**0**	**35,753**	**464,875**	**23,866**
Accumulated depreciation and impairment								
At 1 April 2015	**(16,774)**	**(6,507)**	**(22,054)**	**0**	**0**	**0**	**(45,335)**	**(2,709)**
Depreciation charge	(4,533)	(3,001)	(2,322)	0	0	0	(9,856)	(463)
Depreciation written out to the Revaluation Reserve	2,982	0	0	0	0	0	2,982	0
Depreciation written out to the surplus/deficit on the provision of services	8,505	0	0	0	0	0	8,505	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	(1,120)	0	(28)	0	0	0	(1,148)	0
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services	(4,011)	0	(1)	0	0	0	(4,012)	0
Derecognition – disposals	1,284	0	0	0	0	0	1,284	0
At 31 March 2016	**(13,667)**	**(9,508)**	**(24,405)**	**0**	**0**	**0**	**(47,580)**	**(3,172)**
Net book value								
At 1 April 2015	**275,395**	**19,222**	**89,381**	**7,479**	**0**	**38,541**	**430,018**	**45,479**
At 31 March 2016	**245,667**	**17,030**	**111,366**	**7,479**	**0**	**35,753**	**417,295**	**20,694**

Property, plant and equipment revaluations

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infra-structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carried at historical cost	**1,057**	**27,674**	**161,954**	**7,509**	**0**	**6,152**	**204,346**
Valued at current value (fair value for surplus assets) at:							
2016/2017	117,497	0	0	0	0	0	117,497
2015/2016	105,520	0	158	0	7,000	0	112,678
2014/2015	10,502	0	0	0	0	0	10,502
2013/2014	17,414	0	17	0	0	0	17,431
2012/2013	9,370	0	34	0	0	0	9,404
Total cost or valuation	**261,360**	**27,674**	**162,163**	**7,509**	**7,000**	**6,152**	**471,858**

Revaluation losses

For 2016/17, revaluation decreases recognised in the surplus or deficit on the provision of services include the following item that is greater than £1 million.

Property	£000
Blackburn Bus station – following completion of this facility the valuation has been updated on a depreciated replacement cost basis.	3,552

14 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the following table together with the resources that have been used to finance it.

This statement incorporates details of the movements in the capital financing requirement (CFR). This is a measure of the capital expenditure historically incurred by the Council that has yet to be financed. This will be discharged by future charges to revenue.

31 March 2016 £000		31 March 2017 £000
287,787	**Opening capital financing requirement**	**297,518**
	Capital investment	
37,665	Property, plant and equipment	17,853
740	Intangible assets	477
27,143	Revenue expenditure funded from capital under statute	4,562
0	Investments	0
65,548	**Total capital investment**	**22,892**
	Sources of finance	
(9,690)	Capital receipts – used to finance new capital expenditure	0
0	Capital receipts – set aside to reduce net indebtedness	(1,983)
(36,460)	Government grants and other contributions	(10,460)

	Sums set aside from revenue:	
(940)	Direct revenue contributions	(800)
(8,727)	Minimum revenue provision (MRP) for debt repayment	(5,455)
297,518	**Closing capital financing requirement**	**301,712**
	Explanation of movement in year	
9,731	Increase in underlying need to borrow (unsupported by Government financial assistance)	4,164
9,731	**Total movement**	**4,194**

15 ACCOUNTING FOR SCHOOLS

As a general approach, the Council's single entity financial statements are defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools within the control of the Council. Local authority maintained schools are those schools categorised in the School Standards and Framework Act 1998, i.e. community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.

The accounting treatment of land and buildings in relation to schools is based on the legal framework underlying each type of school. The Council controls the management and running of community and foundation schools (where the foundation school is subject to a PFI contract), and therefore the land and buildings of those schools are included within property, plant and equipment on the Council's Balance Sheet.

The land and buildings of voluntary aided, voluntary controlled, foundation (not subject to a PFI contract), academy and free schools are owned and controlled by the trustees of the schools or the foundation body and are, therefore, not shown on the Council's Balance Sheet.

The Building Schools for Future programme included the construction and operation of four schools under PFI contracts. Initially, the assets for all four community and foundation schools subject to PFI contracts were shown on the Council's Balance Sheet together with the related liability. Subsequently two of the schools, Witton Park and Pleckgate, have converted to academy status. The assets relating to these two schools have been removed from the Council's Balance Sheet however the PFI liabilities for all PFI schools remain on as the Council is the party to the contract with the PFI operator.

Capital expenditure on community schools is added to the balances for those schools as reported in the property, plant and equipment note. Capital expenditure on voluntary aided and foundation schools is treated as Revenue Expenditure Funded from Capital under Statute (REFCUS) and written off each year to the Comprehensive Income and Expenditure Statement within School's and Education Services (Non-DSG).

Dedicated Schools Grant (DSG) is credited to the Comprehensive Income and Expenditure Statement within taxation and non-specific grant income based on amounts due from the Department for Education. (Further details are provided in Note 7).

DSG is allocated between centrally retained Council budget and budgets delegated to individual schools. Expenditure from centrally retained budgets and delegated schools budgets is charged to the Comprehensive Income and Expenditure Statement under School's and Education Services (DSG).

Academies are funded directly from the Government, not via the local authority apart from funding for pupils with high needs. Income and expenditure in relation to academies is therefore not charged to the Comprehensive Income and Expenditure Statement.

Individual schools' balances for local authority maintained schools at 31 March 2017 are included in reserves in the Council's Balance Sheet.

Schools on the Council's Balance Sheet

31 March 2016			31 March 2017	
Number of Schools	Value of Land and Buildings £000		Number of Schools	Value of Land and Buildings £000
20	62,083	Community schools (excluding PFI schools)	20	62,001
1	2,000	Foundation schools (excluding PFI schools)	1	2,124
2	20,697	Community and foundation schools subject to PFI contracts	2	19,998
23	**84,780**	**Total**	**23**	**84,123**

Schools off the Council's Balance Sheet

2015/16 £000		2016/17 £000
12	Academy	12
0	Foundation	0
1	Free	3
26	Voluntary aided	26
4	Voluntary controlled	4
43	**Total**	**45**

There have been no academy conversions during the financial year 2016/17.

The PFI liability relating to both Pleckgate High School and Witton Park High School, which converted to academy status in prior years, remains on the balance sheet as the obligation to pay remains with the Council. The Council receives grant funding from Central Government to cover the capital cost of the PFI liability. There is a formal agreement with the Academy Trust to cover the shortfall between the full liability and the grant, therefore, there is no change in the nature of the existing liability and hence no adjustments were made in 2016/17. Should there be changes in Government policy or the status or viability of the Academies in the future that impact on how the existing guarantees operate, the accounting policy will be reviewed and amended if necessary. Based on current information and projections of pupil numbers no changes are likely over the short to medium term.

16 HERITAGE ASSETS

Heritage assets are those non-current assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge or culture.

	Civic Regalia and Coins £000	Art Collections (including public/street art) £000	Manuscripts and Books £000	Total Heritage Assets £000
Cost or valuation				
At 31 March 2016	**150**	**8,215**	**10,970**	**19,335**
Net gains/(losses) from fair value adjustments	109	0	0	109
At 31 March 2017	**259**	**8,215**	**10,970**	**19,444**

17 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement:

2015/16 £000		2016/17 £000
(7)	Rental income from investment property	(6)
41	Changes in the fair value of investment property	8
34	**Net (gain)/loss**	**2**

The following table summarises the movement in the fair value of investment properties over the year:

2015/16 £000		2016/17 £000
266	**Balance at 1 April**	**225**
(41)	Net gains/(losses) from fair value adjustments	(8)
0	Transfer to Property, Plant & Equipment	(145)
225	**Balance at 31 March**	**72**

Valuation Techniques Used to Determine Level 2 Fair Values for Investment Property

The fair value of investment property has been measured using a market approach, which takes into account existing lease terms and rentals, research into market evidence including market rentals and yields, and data and market knowledge gained in managing the Council's property portfolio. Market conditions are such that the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy. See Accounting Policies – Fair Value Measurement for further details of the fair value hierarchy.

18 INTANGIBLE ASSETS

The only type of asset that is accounted for as intangible is IT software. Where the software is an integral part of a particular piece of hardware, the two items are treated as one property, plant and equipment asset.

The movement on intangible asset balances during the year is as follows:

2015/16 £000		2016/17 £000
	Gross carrying amount	
5,232	Balance at 1 April	4,693
740	Purchases	477
326	Assets reclassified from assets under construction	431
(1,605)	Disposals	(2,007)
4,693	**Balance at 31 March**	**3,594**
	Accumulated amortisation	
(2,008)	Balance at 1 April	(1,785)
(1,382)	Amortisation	(1,494)

1,605	Disposals	2,007
0	Other movements in amortisation	(164)
(1,785)	**Balance at 31 March**	**(1,436)**
	Net carrying amount	
3,224	Balance at 1 April	2,908
2,908	**Balance at 31 March**	**2,158**

19 LONG TERM INVESTMENTS

31 March 2016 £000		31 March 2017 £000
745	Blackburn with Darwen and Bolton Local Education Partnership	736
50	Local Capital Finance Company Plc	50
795	**Total**	**786**

20 LONG TERM DEBTORS

31 March 2016 £000		31 March 2017 £000
26,280	Shopping centre lease	26,278
1,564	Nursing/residential property charges	1,289
317	Loan to Lancashire County Developments Limited	332
2	Loans in respect of private street works	2
10	Loan to Marketing Lancashire Limited (formerly Lancashire and Blackpool Tourist Board Limited)	10
12	Loan for house purchase or improvement	7
6	House deposit/rent	6
22	Car loans to Council employees	4
9	Cycle scheme loans to Council employees	3
28,222	**Total**	**27,931**

21 INVENTORIES

2015/16 £000		2016/17 £000
772	**Balance at 1 April**	**353**
3,118	Purchases	1,237
(3,534)	Recognised as an expense in the year	(1,262)
(3)	Written off	(21)
353	**Balance at 31 March**	**307**

22 SHORT TERM DEBTORS

31 March 6 £000		31 March 2017 £000
487	Non-domestic rates	656
5,413	Central Government bodies	5,091
1,855	Other local authorities	1,626
1,051	NHS bodies	1,213
21	Public corporations	29
7,593	Other entities and individuals	6,698
16,420	**Total**	**15,313**

23 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

31 March 2016 £000		31 March 2017 £000
81	Cash held by the Council	78
4,182	Bank current accounts	4,999
8,600	Short term deposits with banks and building societies	9,223
12,863	**Total**	**14,300**
(2,812)	Bank overdraft	(1,771)
10,051	**Total**	**12,529**

24 SHORT TERM CREDITORS

31 March 2016 £000		31 March 2017 £000
(5,987)	Central Government bodies	(4,317)
(8,576)	Other local authorities	(2,396)
(480)	NHS bodies	(932)
0	Public corporations	0
(22,468)	Other entities and individuals	(20,999)
(37,511)	**Total**	**(28,644)**

25 PROVISIONS

	Non-domestic Rates Appeals £000	Injury and Damage Compensation Claims £000	Other Provisions £000	Total £000
Balance at 1 April 2016	**(2,269)**	**(1,197)**	**(419)**	**(3,885)**
Additional provisions made	(2,162)	(385)	(400)	(2,947)
Amounts used	1,332	532	0	1,864
Written down	0	0	419	419
Balance at 31 March 2017	**(3,099)**	**(1,050)**	**(400)**	**(4,549)**

Further details of the individual provisions are shown below.

31 March 2016 £000	Provision		31 March 2017 £000
(2,269)	Non-domestic rates appeals	The Council, as Billing Authority for the Blackburn with Darwen area, is required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. The total provision is calculated by the Billing Authority on behalf of the major preceptors (Lancashire Combined Fire Authority, Central Government and the Council). The amount appearing in the Balance Sheet has been adjusted to include only the Council's share of the provision.	(3,099)
Injury and damage compensation claims			
(663)	Highways insurance claims	Provision to cover the estimated cost of the Council's contribution to highways third party liability claims received up to 31 March 2016 for which settlement has not been made. The provision is based on past experience of court decisions about liability and the amount of damages payable.	(360)
(284)	Vehicle insurance claims	Provision to cover the estimated cost of vehicle insurance claims received up to 31 March 2017 for which settlement has not been made. This provision is based on a claims excess level of £25,000, an aggregate stop loss for the Council of £205,000 and an estimate of the cost of repairs using past experience.	(370)
(250)	Municipal Mutual Insurance Limited (MMI)	Provision in respect of MMI for costs due to be paid under the Scheme of Arrangement for managing the outstanding liabilities resulting from claims being made.	(320)
Other provisions			
(419)	Loan guarantee	The Council has acted as guarantor for a loan from the Architectural Heritage Fund to the Heritage Trust for the North West. The provision is no longer required as the loan and guarantee have now been discharged.	0
0	Closed Landfill Sites	There are a number of closed landfill sites within the Borough for which the Council has responsibility for aftercare costs. Ongoing monitoring of these sites is in place and indications are that additional in-situ remediation measures may be required, resulting in potential future liabilities for the Council.	(400)
(3,885)	**Total**		**(4,549)**

26 FINANCIAL INSTRUMENTS

A financial instrument is a contract which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and Government grants do not give rise to financial instruments.

Financial assets

Financial assets on the Council's Balance Sheet include:

- Loans and receivables – investments
- Cash and bank balances (treated as cash and cash equivalents)
- Trade receivables for goods and services

All the above are valued at amortised cost.

- Available for sale assets – comprising investments in Money Market Funds (these also form part of cash and cash equivalents). These are shown at fair value as investments with a quoted market price

Categories of financial instruments carried on the Balance Sheet are as follows:

31 March 2016 £000				31 March 2017 £000		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
795	2,000	**2,795**	Loans and receivables - investments (principal)	786	13,000	**13,786**
0	40	**40**	Accrued interest on the above	0	44	**44**
795	**2,040**	**2,835**	**Total investments**	**786**	**13,044**	**13,830**
0	4,509	**4,509**	Loans and receivables - cash and cash equivalents (including bank accounts)	0	5,348	**5,348**
0	1	**1**	Accrued interest on the above	0	0	**0**
0	8,350	**8,350**	Available for sale assets - cash and cash equivalents (Money Market Funds)	0	8,950	**8,950**
0	3	**3**	Accrued interest on the above	0	2	**2**
0	**12,863**	**12,863**	**Total cash and cash equivalents**	**0**	**14,300**	**14,300**
26,280	0	**26,280**	Shopping centre lease - long term debtor	26,278	0	**26,278**
1,942	9,912	**11,854**	Other trade receivables *	1,653	7,754	**9,407**
28,222	**9,912**	**38,134**	**Total trade receivables**	**27,931**	**7,754**	**35,685**
29,017	**24,815**	**53,832**	**Total financial assets**	**28,717**	**35,098**	**63,815**
** The other trade receivables figure stated is lower than the debtors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial asset – receipts in advance and non-exchange transactions*						
0	*6,508*	*6,508*		*0*	*7,559*	*7,559*

Financial liabilities

Financial liabilities on the Council's Balance Sheet are all measured at amortised cost. They include:

- Loans – from the Public Works Loan Board (PWLB) and commercial lenders
- Other liabilities - arising from the Council's PFI contracts under Building Schools for the Future

- Trade payables for goods and services received

31 March 2016 £000				31 March 2017 £000		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(115,611)	(37,573)	**(153,184)**	Principal sum borrowed	(114,050)	(70,072)	**(184,122)**
0	(387)	**(387)**	Accrued interest	0	(417)	**(417)**
(153)	(257)	**(410)**	Effective interest rate (EIR) adjustments **	(150)	(252)	**(402)**
(115,764)	**(38,217)**	**(153,981)**	**Total borrowing**	**(114,200)**	**(70,741)**	**(184,941)**
0	(2,812)	**(2,812)**	Bank overdraft	0	(1,771)	**(1,771)**
(68,551)	(1,544)	**(70,095)**	PFI arrangements	(66,849)	(1,702)	**(68,551)**
0	(27,014)	**(27,014)**	Trade payables #	0	(17,867)	**(17,867)**
(184,315)	**(69,587)**	**(253,902)**	**Total financial liabilities**	**(181,049)**	**(92,081)**	**(273,130)**
** EIR adjustments to market loans with "stepped" interest rates, to average out their cost over the life of the loans. The adjustments made to the carrying values each year impact on the Financial Instruments Adjustments Account (Note 30)						
# The trade payables figure stated is lower than the creditors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions						
0	*(8,953)*	*(8,953)*		*0*	*(9,075)*	*(9,075)*

Fair value of financial assets and liabilities

The Council discloses the "fair value" of each class of financial asset and liability so that it can be compared with the carrying amount in the Balance Sheet.

Fair values can be determined in a range of ways, and may either be reflected in the carrying values in the balance sheet, or reported separately in the notes to the financial statements. New accounting standards require the type of information used in fair value calculations (as classified in the hierarchy below) to be disclosed.

Fair Valuation Hierarchy:

Level 1	quoted prices in active markets for identical assets or bonds
Level 2	inputs other than quoted prices e.g. interest rates or yields for similar instruments
Level 3	"unobservable" inputs or non-market data e.g. estimated creditworthiness or cash flow forecasts

The carrying values for the Money Market Fund holdings included in Financial Assets are "Level 1" fair values, reflecting quoted market prices.

Elements for which no fair value adjustments have been made

For short term instruments, including trade receivables and payables, the carrying value is accepted to be a reasonable approximation of fair value. For the investment element within loans and receivables there is no material difference between the fair value and the carrying value because of either their scale or their relatively short duration to maturity.

Material fair value adjustments to carrying values are summarised in the following table. All of the adjustments are based on Fair Value Level 2 estimations, and were prepared by the Council's treasury advisers. Where no adjustments are shown, any differences are viewed as immaterial.

31 March 2016 £000				31 March 2017 £000		
Carrying Value	**Fair Value**	**Difference**		**Carrying Value**	**Fair Value**	**Difference**
			Financial Assets			
26,280	43,261	**16,981**	Shopping centre lease long term debtor	26,278	49,612	**23,334**
(112,921)	(141,394)	**(28,473)**	PWLB loans	(105,357)	(148,591)	**(43,234)**
(22,259)	(33,045)	**(10,786)**	Market loans (with call options)	(22,250)	(33,785)	**(11,535)**
(279)	(279)	**0**	Other stock	(278)	(278)	**0**
(18,522)	(18,522)	**0**	Short term borrowing	(57,056)	(57,056)	**0**
(153,981)	**(193,240)**	**(39,259)**	**Total Borrowing**	**(184,941)**	**(239,710)**	**(54,769)**
(70,095)	(115,982)	**(45,887)**	PFI liabilities	(68,551)	(119,938)	**(51,387)**

For the shopping centre lease debtor, the £26.278 million carrying value on the Balance Sheet was based on discounting the anticipated net income stream at the interest rate implicit in the lease. The fair values were prepared by discounting the same income at the long term gilt yield plus a credit risk margin. They are higher than the carrying values due to lower interest rates (compared to the rates for the carrying values).

PWLB loan fair values are based on discounting cash flows at market rates, applicable at the Balance Sheet date, reflecting local authority credit worthiness.

For market loans, fair values were prepared by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate, plus a margin for local authority credit risk, and adding the value of the embedded options where relevant. Lender's options to propose an increase to the interest rate on the loan have been valued according to a standard commercial model.

The fair values of the PFI scheme liabilities were prepared by discounting the contractual cash flows (excluding service charges) at the appropriate AA corporate bond yield.

The overall fair value of the Council's financial liabilities is higher than the carrying amount because, predominantly, the interest rates payable on them are higher than the rates that were available for comparable debt at the balance sheet date. This increases the amount that the Council would have to pay to settle the liabilities early.

Income, expense, gains and losses on financial instruments

The amounts charged in the Comprehensive Income and Expenditure Statement are as follows:

2015/16					2016/17			
Financial Liabilities £000	Financial Assets – loans and receivables £000	Financial Assets – available for sale £000	Total £000		Financial Liabilities £000	Financial Assets – loans and receivables £000	Financial Assets – available for sale £000	Total £000
6,575	0	0	6,575	Interest on PFI payments	6,459	0	0	6,459
6,642	0	0	6,642	Interest on loans	6,199	0	0	6,199
13,217	**0**	**0**	**13,217**	**Total expense**	**12,658**	**0**	**0**	**12,658**
0	(1,446)	0	**(1,446)**	Shopping centre lease interest	0	(1,446)	0	**(1,446)**
0	(317)	(50)	**(367)**	Other interest	0	(172)	(42)	**(214)**
0	**(1,763)**	**(50)**	**(1,813)**	**Total income**	**0**	**(1,618)**	**(42)**	**(1,660)**
13,217	**(1,763)**	**(50)**	**11,404**	**Net (gain)/loss**	**12,658**	**(1,618)**	**(42)**	**10,998**

Risks arising from financial instruments

The Council's activities expose it to a variety of financial risks, and these are recognised in the Risk Management Programme. Treasury risks are additionally monitored by Audit Committee and by a central Treasury Management Group, working within a framework set for each year by the Treasury Management Strategy. Treasury Management Practices specify practical operational arrangements.

The main risks are:

- Credit risk – other parties may fail to pay amounts due to the Council
- Liquidity risk – the Council may not have funds available to make payments on time
- Market risk – financial loss may arise as a result of changes in financial markets, e.g. movements in interest rates

Credit risk

Investments

The Council has not suffered any loss due to default by financial institutions, and has controls in place to minimise the risk of default.

Limits are set as to the duration of loans and amounts invested, based on independently monitored credit ratings for financial institutions. This lending list is reviewed frequently in line with the latest information from the Council's treasury advisors. The categories of investment made and key limits applied to them were:

- high rated money market funds – instant access (upper limit £5 million per fund)
- Credit rated banks and building societies – limits in 3 bands, ranging from minimum rating A- (limits £3 million and 4 months) to minimum rating AA (limits £5 million and 9 months)
- Lower rated (minimum BBB) or unrated building societies with minimum asset size £500 million (maximum £1 million and 6 months), subject to additional credit-worthiness assessments
- Deposits with other local authorities (limits £5 million and 364 days)

- Deposits with the Government's Debt Management Office (no limit)

Limits were also applied to investments in foreign-domiciled banks, and to overall balances in the building society sector. Separate criteria applied to longer term investments (over one year), but no long term investments were made during the year.

At the end of the year the Council's investments portfolio was placed as follows:

31 March 2016 £000	Investment Portfolio	31 March 2017 £000
	Short term investments	
0	Other local authorities	12,000
1,000	A rated banks/building societies	0
1,000	Low rated building societies	1,000
2,000	**Total short term investments**	**13,000**
	Short term deposits with banks and building societies	
8,350	AAA rated Money Market Funds	8,950
50	AA rated bank	50
100	A rated bank	25
50	Council's own current account bank	50
8,550	**Total short term deposits**	**9,075**

The Council's maximum exposure to credit risk in relation to its investments cannot be assessed in a general way because the risk of any institution failing to repay funds owed will be specific for individual institutions. Recent experience shows that it is rare for such entities to fail to meet their commitments. There is a risk of non-recovery for all of the Council's deposits, but no evidence that this risk is likely to be realised, therefore, no separate provision for loss has been made in the accounts.

The Council has continued to limit the amount of borrowing undertaken, thereby reducing the potential credit risk arising from placing deposits.

Trade receivables

Credit risk for trade receivables is managed in various ways. Risk on lease income is mitigated by legal ownership of the assets leased, with the option to repossess in the event of debtor default. Arrears are managed by encouraging payment by direct debit and taking recovery action in respect of arrears that do arise. The Council nonetheless recognises the risk of exposure to non-payment and makes provision accordingly, as shown in the following table:

31 March 2016 £000			31 March 2017 £000	
Value of debt	**Provision**		**Value of debt**	**Provision**
7,350	(2,084)	Trade receivables	6,497	(2,237)

Included in the previous table were debts past their due date for payment, broken down by age as follows:

31 March 2016 £000	Aged of Debt	31 March 2017 £000
2,709	Less than 3 months	2,862
949	3 – 12 months	1,562
575	1 to 2 years	897
812	Over 2 years	1,176
5,045	**Total**	**6,497**

Liquidity risk

The Council's day to day cash flows are monitored closely and projections continually updated. The Council's Investment Strategy, whilst prioritising the security of investments and seeking to optimise net interest earned, also ensures that sufficient funds are maintained on call or for short durations to allow payments to be made when necessary. The good standing of all local authorities as credit risks and the prudent management of the Council's budget as a whole ensures that the Council is in a position to borrow short term to meet day to day expenses when and if necessary.

The Council has ready access to borrowing from the PWLB and other local authorities. As a result there is no significant risk that the Council will be unable to raise funds to meet its long term financial commitments. The main longer term risk is that the Council may find itself having to replenish a significant part of its borrowings at a time of unfavourable interest rates. This risk is managed by maintaining a spread of fixed rate loans and limiting the amount of debt maturing in any one year.

The maturity analysis of principal sums borrowed is as follows:

31 March 2016 £000		31 March 2017 £000
(38,217)	Under 1 year	(70,741)
(38,217)	**Total short term borrowing**	**(70,741)**
(1,563)	Maturing in 1 to 2 years	(6,564)
(14,845)	Maturing in 3 to 5 years	(4,349)
(15,815)	Maturing in 6 to 10 years	(18,108)
(83,541)	Maturing in more than 10 years	(85,179)
(115,764)	**Total long term borrowing**	**(114,200)**
(153,981)	**Total borrowing**	**(184,941)**

The Council has £16.5 million of "Lender's Option, Borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council would then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, it is likely that these options will not be taken up, but the above table assumes they may be taken at the first call option date.

Market risk

The main market risk facing the Council is of adverse movement in interest rates. The Council has a number of strategies to manage interest rate risk, including limiting the total level of net borrowing (borrowing less investment) at variable rates and setting an upper limit for net borrowing at fixed interest rates. The Council also employs treasury advisors to assist with taking investment and borrowing decisions including on such matters as options for debt restructuring (repaying debt early and taking out replacement debt on current terms). The impact of potential changes in interest rates is considered in the setting of the annual budget and is monitored across the year to allow any adverse movements to be accommodated.

The potential impact of any changes in interest rates on the Council is complex. For example, an increase in interest rates would have the following effects:

- Borrowing at variable rates – higher interest costs charged
- Borrowing at fixed rates – the fair value of borrowing liabilities would fall
- Investment at variable rates – higher interest earned
- Investment at fixed rates – the fair value of investment assets would rise

In 2016/17, if interest rates had been 1% higher with all other variables held constant the financial effect would have been:

	2016/17 £000
Interest gained on investments	(214)
Increased cost of borrowing	315
Impact on Comprehensive Income and Expenditure Statement	**101**

A 1% change in interest rates would also impact on the fair value of fixed rate investments and borrowings, which can be considered by varying the discount rates used in their estimation. In the case of the fair values of investments this would remain relatively immaterial. It would be more significant for the fair value of borrowings where a 1% increase in rates would decrease the fair value by over £5 million. A decrease in rates would correspondingly increase the fair value of borrowings. This would not impact on either surplus or deficit on the provision of services or the Movement in Reserves Statement.

Over recent years, relatively low interest rates have meant that the Council has been able to take borrowing at very competitive fixed rates and has reduced its exposure to the risk of interest rate increases on borrowing.

27 OTHER LONG TERM LIABILITIES

31 March 2016 £000		31 March 2017 £000
(204,911)	Pension scheme liability	(285,067)
(16,658)	Council's share of debt administered by Lancashire County Council under local Government reorganisation regulations	(15,992)
(68,551)	Building schools for the future PFI liability	(66,849)
(290,120)	**Total**	**(367,908)**

28 PRIVATE FINANCE INITIATIVE (PFI)

The Building Schools for the Future programme included the construction and operation of 4 schools funded under PFI contracts. Two of those schools (Witton Park and Pleckgate) have converted to academy status, and the assets are no longer recognised in the Council's Balance Sheet, although the PFI liability continues to be reported as the obligation to pay remains with the Council. The assets used to provide services at Blackburn Central with Crosshill schools are all recognised in the Council's Balance Sheet. Movements in their value over the year are detailed in the movement on the property, plant and equipment balance in Note 13.

The Council makes an agreed annual payment which is increased by inflation each year. Payments remaining to be made under the PFI contract at 31 March 2017 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Pleckgate school				
Payment in 2017/18	(816)	(565)	(2,624)	(4,005)
Payment within 2 to 5 years	(3,754)	(2,322)	(9,939)	(16,015)
Payment within 6 to 10 years	(4,250)	(5,041)	(10,728)	(20,019)
Payment within 11 to 15 years	(4,972)	(7,243)	(7,804)	(20,019)
Payment within 16 to 20 years	(4,464)	(9,738)	(3,486)	(17,688)

Total Pleckgate School	**(18,256)**	**(24,909)**	**(34,581)**	**(77,746)**
Witton Park / Blackburn Central with Crosshill schools				
Payment in 2017/18	(1,416)	(1,137)	(3,478)	(6,031)
Payment within 2 to 5 years	(6,338)	(4,783)	(13,003)	(24,124)
Payment within 6 to 10 years	(7,381)	(8,838)	(13,936)	(30,155)
Payment within 11 to 15 years	(8,641)	(11,389)	(10,125)	(30,155)
Payment within 16 to 20 years	(9,255)	(15,798)	(5,102)	(30,155)
Payment within 21 to 25 years	(563)	(1,698)	(324)	(2,585)
Total Witton Park/Blackburn Central with Crosshill schools	**(33,594)**	**(43,643)**	**(45,968)**	**(123,205)**
Total	**(51,850)**	**(68,552)**	**(80,549)**	**(200,951)**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred, and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the contractor for capital expenditure incurred is as follows:

	Pleckgate £000	Witton Park / Blackburn Central £000	Total
Balance outstanding at 1 April 2016	**(25,407)**	**(44,688)**	**(70,095)**
Payments during the year	498	1,045	1,543
Balance outstanding at 31 March 2017	**(24,909)**	**(43,643)**	**(68,552)**

29 LEASES

Council as Lessee

Operating Leases

The Council has entered into a number of operating leases in respect of land and buildings, vehicles, plant and equipment.

The future minimum lease payments due to non-cancellable leases in future years are:

31 March 2016 £000		31 March 2017 £000
911	Not later than one year	1,711
2,913	Later than one year and not later than 5 years	5,612
14,246	Later than 5 years	13,565
18,070	**Total**	**20,888**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2016 £000		31 March 2017 £000
1,167	Minimum lease payments	1,363
144	Contingent rents	425
1,311	**Total**	**1,788**

Council as Lessor

Finance Leases

The Council leases out land in respect of the shopping centre under a finance lease with a remaining term of 126 years.

The Council has a gross investment in the lease, made up of minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee, and finance income earned by the Council whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2016 £000		31 March 2017 £000
26,280	Finance lease debtor (net present value of minimum lease payments)	26,278
157,489	Unearned finance income	156,044
183,769	**Gross investment in the lease**	**182,322**

The income due in each year of the lease varies in accordance with the terms of the lease. Management are satisfied that the Council will recover the full value of the debtor over the life of the lease. This position is reviewed annually and the Council is satisfied that the disclosure is materially correct to the extent that the unearned income due to Council in each of the remaining years of the lease is considered unlikely to be materially misstated.

The gross investment in the lease and the minimum lease payments will be received over the following periods:

31 March 2016			31 March 2017	
Gross Investment £000	Minimum Lease Payments £000		Gross Investment £000	Minimum Lease Payments £000
1,447	2	Not later than one year	1,447	2
5,788	7	Later than one year and not later than 5 years	5,788	7
176,534	26,271	Later than 5 years	175,087	26,269
183,769	**26,280**	**Total**	**182,322**	**26,278**

Operating Leases

The Council leases out commercial properties under operating leases, including shops, industrial units, market stalls and agricultural tenancies. This activity supports the provision of local services and economic development in the Borough including the provision of affordable accommodation for businesses.

The minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2016 £000		31 March 2017 £000
(2,474)	Not later than one year	(2,196)
(6,830)	Later than one year and not later than 5 years	(6,123)
(56,051)	Later than 5 years	(55,005)
(65,355)	**Total**	**(63,324)**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 income generated from leases was £3,464,000 with £1,035,000 of contingent rents receivable by the Council (£3,544,000 and £865,800 respectively in 2015/16).

30 RESERVES

Usable reserves

The Council sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover contingencies (unallocated balances). Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

This note sets out the amounts set aside from the General Fund in its usable reserves to provide financing for future spending plans and the amounts posted back from usable reserves to meet general fund expenditure in 2015/16 and 2016/17.

	Balance at 31 March 2015 £000	Transfers out 2015/16 £000	Transfers in 2015/16 £000	Balance at 31 March 2016 £000	Transfers out 2016/17 £000	Transfers in 2016/17 £000	Balance at 31 March 2017 £000
Earmarked reserves							
Reserves held for discretionary use by the Council							
ICT developments	**(836)**	277	0	**(559)**	0	0	**(559)**
Welfare, council tax and business rate reforms	**(2,062)**	838	(88)	**(1,312)**	1,070	(26)	**(268)**
Investments in assets and infrastructure	**(2,092)**	898	(699)	**(1,893)**	703	0	**(1,190)**
Other resources and transformation projects	**(330)**	0	(57)	**(387)**	189	(100)	**(298)**
Support for people services	**(2,009)**	2,139	(1,707)	**(1,577)**	542	(1,171)	**(2,206)**
Town centre, special events and economic development	**(2,141)**	253	0	**(1,888)**	1,342	0	**(546)**
Invest to save projects	**(828)**	415	0	**(413)**	370	0	**(43)**
Contingent sums to support future downsizing and transformation	**(9,557)**	3,258	0	**(6,299)**	3,502	(3,025)	**(5,822)**
Amounts carried forward in respect of unspent grants and contributions	**(1,845)**	1,309	(1,940)	**(2,476)**	2,307	(715)	**(884)**
Other amounts committed in future years budgets	**(125)**	25	0	**(100)**	100	(233)	**(233)**
Reserves held for specified non-discretionary purposes	**(1,887)**	920	(434)	**(1,401)**	71	(496)	**(1,826)**
Total earmarked reserves for discretionary purposes	**(23,712)**	**10,332**	**(4,925)**	**(18,305)**	**10,196**	**(5,766)**	**(13,875)**
Details of other earmarked reserves							
Reserves held in respect of joint arrangements and charitable bodies	**(354)**	26	(35)	**(363)**	25	(46)	**(384)**
Reserves held in relation to schools	**(8,065)**	0	(3,390)	**(11,455)**	2,000	(1,189)	**(10,644)**
LMS schools balances	**(11,383)**	3,301	(223)	**(8,305)**	2,052	0	**(6,253)**
Total of non-discretionary reserves	**(19,802)**	**3,327**	**(3,648)**	**(20,123)**	**4,077**	**(1,235)**	**(17,281)**
Total earmarked reserves	**(43,514)**	**13,659**	**(8,573)**	**(38,428)**	**14,273**	**(7,001)**	**(31,156)**
Unallocated reserves	**(6,651)**	**5,598**	**(4,014)**	**(5,067)**	**5,717**	**(6,839)**	**(6,189)**
Capital receipts reserve	**0**	**9,690**	**(9,690)**	**0**	**1,983**	**(1,983)**	**0**
Capital grants unapplied	**(3,417)**	**1,477**	**(7,045)**	**(8,985)**	**10,460**	**(13,524)**	**(12,049)**
Total Council usable reserves	**(53,582)**	**30,424**	**(29,322)**	**(52,480)**	**32,433**	**(29,347)**	**(49,394)**

Unusable reserves

Certain reserves are kept to manage the accounting processes for non-current assets, for example the Revaluation Reserve and the Capital Adjustment Account. These and other reserves in relation to financial instruments, retirement and employment benefits do not represent usable resources for the Council.

31 March 2016 £000		31 March 2017 £000
(85,722)	Revaluation Reserve	(83,913)
(57,314)	Capital Adjustment Account	(49,527)
2,032	Financial Instruments Adjustment Account	1,981
(26,280)	Deferred Capital Receipts Reserve	(26,278)
204,911	Pensions Reserve	285,067
168	Collection Fund Adjustment Account	1,151
2,538	Accumulated Absences Adjustment Account	2,676
40,333	**Total**	**131,157**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment assets. The balance is reduced when such assets are:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

The reserve only contains revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before this date are consolidated into the balance on the Capital Adjustment Account.

2015/16 £000		2016/17 £000
(75,458)	**Balance at 1 April**	**(85,722)**
(17,131)	Upward revaluation of assets	(2,853)
3,963	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	3,308
(13,168)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**455**
847	Difference between fair value depreciation and historical cost depreciation	925
2,057	Accumulated gains on assets sold or scrapped	429
2,904	**Amount written off to the capital adjustment account**	**1,354**
(85,722)	**Balance at 31 March**	**(83,913)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of

acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or enhancement.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2015/16 £000		2016/17 £000
(90,547)	**Balance at 1 April**	**(57,314)**
	Reversal of items relating to capital expenditure charged to the Comprehensive Income and Expenditure Statement	
13,868	Charges for depreciation and impairment of non-current assets	16,842
11,271	Revaluation losses on property, plant and equipment	2,728
1,382	Amortisation of intangible assets	1,494
27,143	Revenue expenditure funded from capital under statute	4,572
38,249	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal calculation	2,195
(2,904)	Adjusting amount written out of the Revaluation Reserve	(1,354)
89,009	**Net written out amount of the cost of non-current assets consumed in the year**	**26,477**
	Capital financing applied in the year	
(9,690)	Use of the capital receipts reserve to finance new capital expenditure or set aside to reduce the net indebtedness of the Council	(1,983)
(34,983)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(6,628)
(1,477)	Application of grants to capital financing from the Capital Grants Unapplied Account	(3,832)
(8,727)	Statutory provision for the financing of capital investment charged against the General Fund	(5,455)
(940)	Capital expenditure charged against the General Fund	(800)
41	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	8
(57,314)	**Balance at 31 March**	**(49,527)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Financial Instruments Adjustment Account to manage premiums paid on the early redemption of loans. Premiums are initially debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. Similarly, further statutory provisions allow the “effective” interest rate charges in respect of soft loans and stepped interest loans to be reversed out of the General Fund balance to the Financial Instruments Adjustment Account.

2015/16 £000		2016/17 £000
2,082	**Balance at 1 April**	**2,032**
(29)	Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	(29)
	Effective interest rate adjustments in respect of:	
(14)	Soft loans	(15)
(7)	Stepped loan rates	(7)
(50)	**Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance cost chargeable in the year in accordance with statutory requirements**	**(51)**
2,032	**Balance at 31 March**	**1,981**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place.

2015/16 £000		2016/17 £000
(26,281)	**Balance at 1 April**	**(26,280)**
1	Transfer to the capital receipts reserve upon receipt of cash	2
(26,280)	**Balance at 31 March**	**(26,278)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for pension benefits and for funding benefits in accordance with statutory provisions. The Council accounts for pension benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to the pension fund.

The debit balance on the Pensions Reserve, therefore, shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015/16 £000		2016/17 £000
240,639	**Balance at 1 April**	**204,911**
(46,316)	Remeasurement of the net defined benefit liability	71,374
10,588	Amount by which pension costs calculated in accordance with IAS19 are different from the contributions due under the pension scheme regulations.	8,782
204,911	**Balance at 31 March**	**285,067**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and non-domestic rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2015/16 £000		2016/17 £000
(1,023)	**Balance at 1 April**	**168**
1,191	Amount by which the council tax income and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement differs to the amount calculated in accordance with statutory requirements	983
168	**Balance at 31 March**	**1,151**

Accumulated Absences Adjustment Account

The cost of compensated absences e.g. annual leave entitlement not taken by employees during the year is charged to the Comprehensive Income and Expenditure Statement. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account.

2015/16 £000		2016/17 £000
2,793	**Balance at 1 April**	**2,538**
(2,793)	Settlement of cancellation of accrual made at the end of the preceding year	(2,538)
2,538	Amounts accrued at the end of the current year	2,676
(255)	**Amount by which remuneration charge to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**138**
2,538	**Balance at 31 March**	**2,676**

31 POST-EMPLOYMENT BENEFITS

Pension Schemes accounted for as defined contribution schemes

Teachers' pension scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme, however, the scheme is unfunded. The DfE uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities, and it also bears the related funding risks. The Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17, the Council paid £5,821,968 (£5,893,020 in 2015/16) to the Teachers Pensions Agency in respect of teachers' retirement benefits, representing 16.48% (15.5% in 2015/16) of pensionable pay.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers' Scheme. These costs are accounted for on a defined benefits basis.

National Health Service (NHS) pension scheme

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17, the Council paid £82,460 (£80,606 in 2015/16) to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% (14.3% in 2015/16) of pensionable pay.

Defined benefit pension schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) which is administered locally by Lancashire County Council. The LGPS is a funded defined benefit pension arrangement for local authorities and related employers and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every 3 years.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as shown in the following table.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. This is an unfunded defined benefit arrangement, under which liabilities arising are recognised when the decision to make the award is made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. Transactions are accounted for using the same policies as are applied to the Local Government Pension Scheme.

Transactions in relation to post-employment benefits

The Council recognises the costs of post-employment/retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	15,443	14,493	0	0
Past service cost	0	0	0	0
(Gain)/loss from settlements and curtailments	396	1,020	0	0
Financing and Investment Income and Expenditure				
Net Interest expense and administration costs	7,724	7,197	248	249
Total post-employment benefit charged to the surplus or deficit on the provision of services	**23,563**	**22,710**	**248**	**249**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Remeasurement - assets	(6,726)	(84,621)	0	0
Remeasurement - liabilities				
- Experience (gain) / loss	0	(17,339)	0	(80)
- (Gains)/losses on financial assumptions	(39,341)	177,194	(249)	1,168
- (Gains)/losses on demographic assumptions	0	(4,872)	0	(76)
Total re-measurement recognised in Other Comprehensive Income	**(46,067)**	**70,362**	**(249)**	**1,012**
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**22,504**	**93,072**	**(1)**	**1,261**
Movement in Reserves Statement				
Reversal of net charges made to the surplus/deficit on the provision of services for post-employment benefits in accordance with the Code	(10,957)	(9,127)	369	345
Actual amount charged against the General Fund balance for pensions in the year				
Employers' contributions payable to the scheme	**12,606**	**13,583**		
Retirement benefits payable to pensioners			**617**	**594**

Pensions assets and liabilities recognised in the Balance Sheet

The amounts included in the Balance Sheet arising from the Council's obligations in respect of its defined benefit plans are as follows:

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Present value of the defined benefit obligation	(659,067)	(837,735)	(7,211)	(7,878)
Fair value of plan assets	461,367	560,546	0	0
Net liability arising from defined benefit obligation	**(197,700)**	**(277,189)**	**(7,211)**	**(7,878)**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	**(674,155)**	**(659,067)**	**(7,829)**	**(7,211)**
Current service cost	(15,443)	(14,493)	0	0
Interest cost	(22,024)	(23,451)	(248)	(249)
Contributions by scheme participants	(3,995)	(4,167)	0	0
Remeasurement - liabilities				
- Experience (gain) / loss	0	17,339	0	80
- (Gains)/losses on financial assumptions	39,341	(177,194)	249	(1,168)
- (Gains)/losses on demographic assumptions	0	4,872	0	76
Past service (cost)/gain	0	0	0	0
(Losses)/gains on curtailment	(396)	(1,020)	0	0
Liabilities extinguished on settlements	0	0	0	0
Benefits paid	17,605	19,446	617	594
Closing balance at 31 March	**(659,067)**	**(837, 735)**	**(7,211)**	**(7,878)**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	**441,345**	**461,367**	**0**	**0**
Interest income	14,548	16,579	0	0
Remeasurement (gains) / losses - assets	6,726	84,621	0	0
Settlements	0	0	0	0
Contributions from employer	12,606	13,583	617	594
Contributions from employees into the scheme	3,995	4,167	0	0
Benefits paid	(17,605)	(19,446)	(617)	(594)
Other	(248)	(325)	0	0
Closing balance at 31 March	**461,367**	**560,546**	**0**	**0**

Local Government Pension Scheme assets comprised:

31 March 2016 £000	Asset category	Quoted in active markets (Y/N)	31 March 2017 £000
15,866	**Cash and cash equivalents**	N	**5,818**
	Equity instruments (by industry type):		
50,120	Consumer	Y	0
25,702	Manufacturing	Y	0
5,804	Energy and utilities	Y	0
27,984	Financial Institutions	Y	0
16,741	Health and care	Y	0
32,222	Information Technology	Y	0
0	Other	Y	0
158,573	**Sub-total equity**		**0**
	Bonds (by sector):		
9,396	Corporate	Y	9,205
9,270	Government	Y	11,095
18,666	**Sub-total bonds**		**20,300**
	Property (by type):		
15,804	Retail	N	15,258
28,545	Commercial	N	34,124
44,349	**Sub-total property**		**49,382**
	Private equity:		
7,525	UK	N	6,355
20,259	Overseas	N	29,723
27,784	**Sub-total private equity**		**36,078**
	Other investment funds:		
36,865	Infrastructure	N	67,638
6,370	Indirect property funds	N	7,903
116,098	Credit funds	N	125,610
0	UK Pooled Equity Funds	N	0
36,796	Overseas Pooled Equity Funds	N	247,817
196,129	**Sub-total other investment funds**		**448,968**
461,367	**TOTAL ASSETS**		**560,546**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method; an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Mercer Limited, an independent firm of actuaries.

Estimates for the Lancashire County Fund are based on the latest full valuation of the scheme as at 31 March 2016. The principal assumptions used by the actuary are as follows:

2015/16		2016/17
Mortality assumptions		
Longevity at 65 for current pensioners		
23.0	Male	22.6
25.6	Female	25.2
Longevity at 65 for future pensioners		
25.2	Male	24.9
27.9	Female	27.9
Financial assumptions		
2.0%	Rate of CPI inflation	2.3%
3.5%	Rate of increase in salaries	3.8%
2.0%	Rate of increase in pensions (payment / deferment)	2.3%
3.6%	Rate for discounting scheme liabilities	2.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the previous table. The following sensitivity analysis is based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous period.

Change in assumptions at 31 March 2017	Impact on the net Defined Benefit Liability £000	Impact on the projected Service Cost for next year £000	Impact on the projected Net Interest Cost for next year £000
Longevity - 1 year increase in member life expectancy	+ 16,513	+ 642	+ 420
Rate of inflation - increase by 0.1%	+ 15,671	+ 857	+ 399
Rate of increase in salaries – increase by 0.1%	+ 3,060	+ 180	+ 84
Rate for discounting scheme liabilities – increase by 0.1%	- 15,387	- 470	- 122

Impact on the Council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible, whilst meeting the requirement of Regulations governing the Fund which require the contributions to be set with a view to targeting the Fund's solvency. The detailed provisions are set out in the Fund's Funding Strategy Statement.

The Regulations also require actuarial valuations to be carried out every 3 years. The most recent valuation, at 31 March 2016, showed a shortfall of £690 million against the Fund's solvency funding target. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 90% of its liabilities – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31 March 2013 the shortfall was £1,377m, equivalent to a solvency funding level of 78%. The fund's employers are paying additional contributions over an average period of 16 years in order to meet the shortfall. Funding levels are monitored on an annual basis, with the next triennial valuation due to be completed on 31 March 2020.

The scheme continues to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

The Council anticipates paying contributions of £13.426 million to the scheme in 2017/18.

The weighted average duration of the authority's defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes.

32 CASH FLOW STATEMENT NOTES

Operating activities

The net surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement has been subject to the following adjustments in order to arrive at the net cash flows from operating activities:

The cash flows for operating activities include the following items:

31 March 2016 £000		31 March 2017 £000
1,822	Interest received	1,656
(13,317)	Interest paid	(12,637)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

31 March 2016 £000		31 March 2017 £000
9,856	Depreciation	10,306
15,433	Impairment and downward valuations	9,264
1,382	Amortisation	1,494
(302)	Increase/(decrease) in creditors	(8,831)
9,243	(Increase)/decrease in debtors	1,132
419	(Increase)/decrease in inventories	46
10,588	Movement in pension liability	8,782
38,099	Carrying amount of non-current assets, non-current assets held for sale, sold or derecognised	2,195
430	Other non-cash items charged to the surplus or deficit on the provision of services	650
85,148	**Total**	**25,038**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

31 March 2016 £000		31 March 2017 £000
1	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	0
(9,690)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,983)
(42,028)	Any other items for which the cash effects are investing or financing cash flows	(13,524)
(51,717)	**Total**	**(15,507)**

Investing activities

31 March 2016 £000		31 March 2017 £000
(38,413)	Purchase of property, plant and equipment, investment property and intangible assets	(18,331)
0	Purchase of short term and long term investments	(11,000)
0	Other payments for investing activities	0
9,690	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,985
1,007	Proceeds from short term and long term investments	9
39,961	Other receipts from investing activities	13,804
12,245	**Net cash flows from investing activities**	**(13,533)**

Financing activities

31 March 2016 £000		31 March 2017 £000
42,500	Cash receipts of short term and long term borrowing	57,000
0	Other receipts from financing activities	0
(1,441)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(1,543)
(35,494)	Repayment of short term and long term borrowing	(26,728)
137	Other payments for financing activities	(168)
5,702	**Net cash flows from financing activities**	**28,561**

33 RELATED PARTIES

The Council is required to disclose material transactions with related parties. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills and housing benefits). Grant income from Government departments and grant receipts outstanding at 31 March 2017 are shown in Note 7.

Members

Members of the Council have direct control over the Council's financial and operating policies. Members are also appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities.

The total of Members' allowances paid in 2016/17 is shown in Note 9.

During 2016/17, the Council paid for works and services from the following companies / organisations in which a number of members had a personal interest:

- Payments to the value of £219,800 were made to Lancashire United Buses, mostly for bus service costs, bus fares and bus pass charges.
- Two members were either employed by or were on the governing body of Blackburn College, to whom the Council paid £135,900 towards the jointly funded town centre leisure facility and £151,300 in relation to academic fees for which the Council was liable.
- One member was employed by the University of Central Lancashire, to whom the Council paid £54,500 in relation to course fees for Council staff.
- One member was employed by Lancashire County Council, to whom the Council paid a total of £9.6 million in respect of pensioner travel concessions, education provision and grants for museums and schools.
- Also, one member is a Governor and Director of Witton Park Academy, which received £183,100 from the Council during the year in respect of Non Local Authority Schools payments.

In all cases, the works or services detailed above were entered into in full compliance with the Council's standing orders, financial procedure rules and procurement procedure rules. In addition, details of these interests have been recorded in the Register of Members' Interests, which is open to public inspection.

Interests in companies and other entities

The Council has financial interests and related party transactions with a number of companies in which it has invested, and which are shown in Note 19.

Blackburn with Darwen and Bolton Local Education Partnership Limited

The Council has a 5% shareholding in Blackburn with Darwen and Bolton Local Education Partnership Limited, which was formed in order to deliver the capital investment elements of the Building Schools for the Future programme. The Council has also invested in Blackburn with Darwen and Bolton Phase 1 Holdings Limited, Blackburn with Darwen and Bolton Phase 1 Limited, Blackburn with Darwen and Bolton Phase 2 Holdings Limited, Blackburn with Darwen and Bolton Phase 2 Limited, which are special purpose companies established solely to deliver the new schools at Pleckgate, Witton Park and Blackburn Central with Crosshill under the Private Finance Initiative (Note 28). Payments made in 2016/17 to the Blackburn with Darwen and Bolton Local Education Partnership Limited amounted to £13.43 million.

Twin Valley Homes

The Council has one sixth representation on the Board of Twin Valley Homes (TVH), which is a not for profit community entity. Under the terms of the large scale voluntary transfer of council dwellings that resulted in the creation of TVH in 2001, the Council, together with several neighbouring local authorities and housing associations, has certain rights to make nominations into dwellings which are vacant and available for letting. The Council made payments to TVH of £260,716 during the year to fund schemes providing temporary accommodation for single homeless people/families and sheltered accommodation. In addition the Council made payments of housing benefit to TVH in its role as a social landlord.

Growth Lancashire Limited

The Council is one of 6 local authorities with an interest in Growth Lancashire Limited (formerly Regenerate Pennine Lancashire Limited), an economic development company designed to help increase prosperity and life choices for people living and working in Pennine Lancashire. By working alongside businesses to boost Lancashire's economy, the company is able to create new job opportunities and access local funds, Government grants and European funding. In 2016/17 the company delivered part of a £1.8 million Gateway Service for Lancashire County Council. In addition, the company also assisted other organisation to pay out £3.8 million in grants to companies. The company is limited by guarantee. Lancashire County Council is the accountable body, providing the company secretary and audit services at no cost. Blackburn with Darwen Borough Council acts as the employing body for staff and provides finance, IT and related support.

Officers

Officers are appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities. All officers are also required to declare any relevant interests in a departmental register of interest, gifts and hospitality. In 2016/17 two senior officers made the following declarations:

- a family relationship with a senior officer in one of the Council's major precepting authorities. Although there are significant transactions between the two parties in relation to business rates and council tax, the administration of these is strictly defined by a statutory framework.
- a family relationship with a Lancashire County Councillor - involved in health related activity on a number of Lancashire County Council committees and a member of the Lancashire Pension Fund committee.

There were no other significant transactions with organisations in which Council officers had declared interests.

In February 2017, the Council agreed a shared management arrangement with Capita for an initial 12 month period. As part of this Capita's Partnership Director will also act as Director of Growth & Development for the Council managing Council staff and services alongside delivering Capita services under the new contract. Another Capita officer is working full time for the Council heading up the integrated Growth team comprising both Council and Capita staff to deliver housing and business growth in the borough. Revised governance arrangements and protocols for dealing with potential conflicts of interest have also been introduced.

Other public bodies (subject to common control by Central Government)

The main transactions with other public bodies are in relation to precepts paid to Lancashire Police Authority and the Lancashire Combined Fire Authority, details of which are shown in the Collection Fund Income and Expenditure Statement.

The Council continues to work closely with its major Health partner, Blackburn with Darwen Clinical Commissioning Group (CCG) to jointly deliver integrated health and adult social care services under NHS Section 75 and Section 256 agreements and under strategic direction of the local Health and Wellbeing Board. This includes joint strategic needs assessments and a joint health and wellbeing strategy to increase and improve integrated health and social care for residents of the Borough.

In addition the Council is working together with other health partners and Local Authorities across the Pennine Lancashire footprint and wider over the Lancashire and South Cumbria area on new models of care and delivery of Integrated Health and Social Care services.

The Council and the Clinical Commissioning Group (CCG) received £10.972 million revenue ring fenced grant in 2016/17 towards the Better Care Fund (BCF), of which £5.844 million expenditure was incurred by the CCG on health related initiatives and the remaining £5.128 million was retained by the Council to spend on health and social care schemes, in accordance with the pooled budget arrangements. The BCF brings together NHS and Local Government resources, and operates as a pooled budget (Section 75 agreement) with Blackburn with Darwen Council identified as the pooled budget host. The BCF provides an opportunity through pooled budget arrangements to transform local services so that people are provided with better integrated care and support. The Fund provides a real opportunity to create a shared plan for the totality of health and social care activity, to improve services and value for money, and protecting and improving social care services by shifting resources from acute services into community and preventive settings.

The Council received £15.6 million of Public Health Grant in 2016/17 for the delivery of Public Health services aimed at improving health outcomes for all ages and removing health inequalities across the borough population. The Public Health Grant is allocated to the authority as a ring fenced grant.

Additional transfer of funds and contributions from Blackburn with Darwen CCG in 2015/16 totalled £643,000.

The Council hosts a joint building control service with Burnley Borough Council. Under a service level agreement both authorities contribute towards the net running cost of the service, with Burnley contributing 35.5% (£86,324) and Blackburn with Darwen contributing 64.5% (£156,842) in 2016/17.

Entities controlled or significantly influenced by the Council

The 15 year contract between the Council and Capita Business Services Limited / Capita Limited finished at the end of June 2016. Options for future service delivery post expiry were considered and the Council underwent a Competitive Dialogue process for the appointment of a strategic partner to deliver Property, Highways and Transport services as a multi-disciplinary offering, a number of other services were brought back in-house. The new contract will be a 5-year initial term, with the ability to extend by 3 years and then a further 2 years (i.e. maximum of 10 years). There will be a process for review and extension linked to ongoing performance and achievement of the macro objectives. Payments made to the companies during 2016/17 amounted to £5.89 million. Whilst the Council has no direct control over the companies, and the value of the contract is not significant in terms of the size of the Capita Group, this represents a continuation of the Council's partnership arrangements with the Capita Group.

The Council made contributions totalling £238,748 to 4 organisations (Families, Health & Wellbeing Consortium, Tobacco Free Futures, Alcohol Concern and Age Concern) during the year where the amounts concerned provided a significant proportion of those organisations' income. In these cases, there is a presumption that there is substantial reliance upon such contributions for the future continuation or otherwise of the organisations concerned.

34 CONTINGENT ASSETS AND LIABILITIES

Contingent Asset

The Council is currently pursuing the recovery of costs incurred in respect of two Adult Social Care service users. The first case involves a dispute between three local authorities over the responsibility for the social care costs for an individual service user. Legal services have been involved in this case to pursue recovery of the costs and after numerous attempts over five years the case has been to ADASS for mediation and will now be referred to the Secretary of State for resolution. In the second case a service user was entitled to Continuing Heath Care since 2006 but the Council was not aware of it and paid for the service user care. Therefore, the provider appears to have been double funded, receiving payments from both Health and the Council. The process to try to recover these costs has been initiated by the Department.

The total amount to be recovered in respect of both service users amounts to £400,000 as at end of March 2017.

Contingent Liability

Following the liquidation of Municipal Mutual Insurance (MMI) in 1992/93 there are a number of claims outstanding which may not be resolved for many years. The "Scheme of Arrangement" between local authorities and the administrators of MMI was invoked in 2012/13 and the Council has a liability both in relation to the former Blackburn Borough Council and Lancashire County Council (in relation to transferred services). The total potential liability in relation to the former Blackburn Borough Council as at 31 March 2017 remains uncertain. A Levy has been paid at a rate of 25% on established scheme liabilities - amounting to a total of £499,000 for the Council. In considering the most likely remaining financial impact, the Council has set aside a provision of £320,000, with a further £250,000 being held in an earmarked reserve. However, there is a risk that the Council's financial liability could increase from this level.

35 TRUST FUNDS

The Council acts as a sole or custodian trustee for 2 trust funds, and as one of several trustees for a further 2 funds. The funds do not represent assets of the Council and they have not been included in the Council's Balance Sheet. The Council also administers a fund on behalf of third parties.

The third party funds are made up of savings and property of residents in the Council's care.

Trust funds 2016/17

	Income £	Expenditure £	Assets £	Liabilities £
Funds/bequests for which Blackburn with Darwen Borough Council acts as sole trustee:				
Garstang Lecture Fund	(418)	0	(37,480)	0
Henrietta Kenyon Bequest	(369)	0	(16,143)	0
Funds/bequests for which Blackburn with Darwen Borough Council acts as joint trustee:				
Borough of Blackburn Common Good Trust	(3)	0	(23,647)	0
Poors Land Charity	(1)	0	(3,338)	0
Funds/bequests which Blackburn with Darwen Borough Council administers:				
Harriet Holt	(21)	0	(7,739)	0
Total	**(812)**	**0**	**(88,347)**	**0**

Trust funds 2015/16

	Income £	Expenditure £	Assets £	Liabilities £
Funds/bequests for which Blackburn with Darwen Borough Council acts as sole trustee:				
Garstang Lecture Fund	(448)	0	(35,780)	0
Henrietta Kenyon Bequest	(223)	0	(14,752)	0
Funds/bequests for which Blackburn with Darwen Borough Council acts as joint trustee:				
Borough of Blackburn Common Good Trust	(149)	0	(23,644)	0
Poors Land Charity	(1)	0	(3,337)	0
Funds/bequests which Blackburn with Darwen Borough Council administers:				
Harriet Holt	(36)	0	(7,718)	0
Total	**(857)**	**0**	**(85,231)**	**0**

Other third party funds

31 March 2016 £		31 March 2017 £
(3,037)	Monies received from the Criminal Injuries Compensation Board for minors under the Council's care	0
(26,394)	Monies held in relation to Equity House	(26,394)
(27,266)	Savings and property of residents in the Council's care	(27,266)
(56,697)	**Net interest**	**(53,660)**

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT

2015/16				2016/17		
Non-domestic rates	Council tax	Total		Non-domestic rates	Council tax	Total
£000	£000	£000	**Income**	£000	£000	£000
	(50,550)	(50,550)	Council tax receivable (net of benefits, discounts for prompt payment and transitional relief)		(52,793)	(52,793)
(48,672)	0	(48,672)	Non-domestic rates receivable (net of discretionary and mandatory reliefs)	(51,411)	0	(51,411)
			Contribution towards previous year's Collection Fund deficit			
(672)	0	(672)	- Central Government	0	0	0
(658)	0	(658)	- Blackburn with Darwen Borough Council	0	(57)	(57)
0	0	0	- Police & Crime Commissioner for Lancashire	0	(7)	(7)
(14)	0	(14)	- Lancashire Combined Fire Authority	0	(3)	(3)
(1,344)	**0**	**(1,344)**	**Total contribution to previous year's Collection Fund deficit**	**0**	**(67)**	**(67)**
(50,016)	**(50,550)**	**(100,566)**	**Total income**	**(51,411)**	**(52,860)**	**(104,271)**
			Expenditure			
			Precepts and demands from major preceptors and the Council (Council tax)			
0	42,026	42,026	- Blackburn with Darwen Borough Council	0	44,079	44,079
0	5,257	5,257	- Lancashire Police Authority	0	5,409	5,409
0	2,144	2,144	- Lancashire Combined Fire Authority	0	2,184	2,184
0	**49,427**	**49,427**	**Total council tax precepts**	**0**	**51,672**	**51,672**
			Shares of non-domestic rating income to major preceptors and the Council (billing authority)			
22,773	0	22,773	- Blackburn with Darwen Borough Council	22,928	0	22,928
465	0	465	- Lancashire Combined Fire Authority	468	0	468
23,238	**0**	**23,238**	**Total non-domestic rates precepts**	**23,396**	**0**	**23,396**
23,238	0	23,238	Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to Central Government	23,396	0	23,396
148	0	148	Transitional Protection Payments payable	93	0	93
3,341	1,253	4,594	Impairment of debt/appeals	5,073	1,391	6,464
253	0	253	Charge to General Fund for allowable collection costs	255	0	255
			Contribution towards previous year's Collection Fund surplus			
0	0	0	- Central Government	424	0	424
0	984	984	- Blackburn with Darwen Borough Council	416	0	416
0	121	121	- Police & Crime Commissioner for Lancashire	0	0	0
0	49	49	- Lancashire Combined Fire Authority	8	0	8
50,218	**51,834**	**102,052**	**Total expenditure**	**53,061**	**53,063**	**106,124**

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT

202	**1,284**	**1,486**	**Movement on fund balance**	**1,650**	**203**	**1,853**
265	**(1,355)**	**(1,090)**	**Fund balance brought forward**	**467**	**(71)**	**396**
202	1,284	1,486	Movement on fund balance	1,650	203	1,853
467	**(71)**	**396**	**Fund balance carried forward**	**2,117**	**132**	**2,249**

Allocation of Collection Fund balance

31 March 2016			31 March 2017	
Non-domestic rates £000	Council tax £000	(Surplus)/deficit carried forward	Non-domestic rates £000	Council tax £000
		Allocated to:		
229	(60)	Blackburn with Darwen Borough Council	1,037	113
0	(8)	Police & Crime Commissioner for Lancashire	0	14
5	(3)	Lancashire Combined Fire Authority	21	5
233	0	Central Government	1,059	0
467	**(71)**	**Total**	**2,117**	**132**

Non-domestic rates

The Council collects non-domestic rates for its area which are based on local rateable values (set by the Valuation Office) multiplied by a uniform business rate set by Central Government. There are 2 multipliers- the small business non-domestic rating multiplier, which is applicable to those that qualify for small business rate relief, and the non-domestic rating multiplier, which includes the supplement to pay for the small business rates relief scheme.

For 2016/17 the non-domestic rating multiplier was 49.7p (49.3p for 2015/16), which was made up of a small business rating multiplier of 48.4p plus a supplement of 1.3p. The total non-domestic rateable value at 31 March 2017 was £128,856,802 (£128,665,279 at 31 March 2016).

Calculation of the council tax base

The council tax base is the number of chargeable dwellings in each valuation band (A to H), adjusted for dwellings where exemptions or discounts apply, and converted to an equivalent number of band D dwellings.

In 2016/17 the calculation of the tax base for council tax setting purposes was based on a total of 60,878 (60,685 in 2015/16) residential properties (taken from a list prepared by the Government's Valuation Office). After taking account of discounts, exemptions and disabled relief these equate to 42,625 chargeable dwellings or 34,196 band D equivalent properties, as analysed in the table below.

Valuation Band	Total equivalent number of dwellings after discounts, exemptions and disabled relief	Chargeable Band D Equivalents
A	21,325	14,210
B	7,393	5,750
C	7,038	6,256
D	3,790	3,790
E	1,808	2,209
F	696	1,005
G	525	875
H	50	101
Total	**42,625**	**34,196**

ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

A number of new and revised standards have been issued but not yet adopted in the 2016/17 Code. These include amendments to:

- Amendment to the reporting of pension fund scheme transaction costs.
- Amendment to the reporting of investment concentration (for pension funds).

It is not anticipated that the above amendments will have a material impact on the information provided in the Council's financial statements for 2017/18 i.e. there is unlikely to be a change to the reported net cost of services or the Surplus or Deficit on the Provision of Services.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out on the following pages the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

Funding

There continues to be a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to close facilities, and reduce levels of service provision.

Market lease

The Council considers that the terms of the lease agreement in respect of Blackburn Market within the shopping centre does not transfer substantially all the risks and rewards incidental to ownership of the property, plant and equipment. The primary factors in determining this treatment were the non-specialist nature of the space rented, the separate accounting treatment of the specialist fixtures and fittings within the space, and the duration of the lease compared to the full economic life of the asset. The lease has, therefore, been treated as an operating lease and rentals paid under the terms of the lease are charged to the Comprehensive Income and Expenditure Statement.

Accounting for schools

In assessing the most appropriate accounting treatment for balances and transactions in relation to schools, the Council has considered the circumstances of each of the categories of school, such as ownership, control and access to economic benefits and service potential. Further details are included in Note 15.

ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Assumptions	Degree of uncertainty
Property, plant and equipment – valuation	
The Code prescribes the detailed bases for measuring the different classes of property, plant and equipment (PPE). Valuations are performed by Capita Symonds, property consultants to the Council, using qualified valuers, using recognised measurement techniques and based on professional guidance. The Council commissions a rolling programme of valuations, which meets the Code requirements to revalue assets every 5 years as a minimum. Assets on which material capital work has been completed in year are also revalued, and an annual review is carried out to consider impairment of properties and to ensure that property valuations are not materially different to the carrying amount in the Balance Sheet.	Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited.
Property, plant and equipment/intangible assets – depreciation/amortisation	
Depreciation/amortisation is the systematic allocation of the cost/fair value of an asset, less its residual value, over its useful life. The calculations of amounts for the year are generated by the Council's asset register software system, although the residual value and useful life are estimates. For property assets, residual values are unlikely to be material. Useful lives are estimated by the Council's property consultants based on professional guidance and are reviewed on revaluation of the asset. For non-property assets, only the residual value and useful life are estimates because the assets are held at cost. The Council seeks advice from the supplier on useful lives and requires asset managers to estimate the remaining useful life of assets as part of the annual asset verification arrangements.	Whilst total depreciation/amortisation for 2016/17 was material at £11.8 million (see Notes 13 & 18) there were no material depreciation charges for individual assets with the highest depreciation charge being £468,900. For property assets, since useful lives are estimated by an expert based on professional guidance, the scope to use judgement and change assumptions is limited. Also, given that property assets have relatively long asset lives, the estimates are less sensitive to changes in assumptions. For non-property assets, the estimated remaining useful lives are reviewed as part of the annual asset verification arrangements, which mitigates the risk of the sensitivity to changes in assumptions, given the relatively short asset lives.
Private finance initiative (PFI) schemes	
The Council's Building Schools for the Future (BSF) project included a number of schools funded under a PFI arrangement. The PFI contract is considered to be a service concession as defined in IFRIC 12, with the Council having control of the services provided through the use of the schools throughout the period of the contract. The Council pays the operator for the specified services over the life of the arrangement. The contract includes performance standards. It also sets the initial prices to be levied by the operator and regulates price revisions over the term of the arrangement.	Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. As the PFI model uses recognised measurement techniques and the Council has engaged professional advisors, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. See Note 28 for further details.
Impairment of debtors	
In this context, the concept of "impairment" involves the assessment of the likelihood of a debt being recovered. Where it is considered likely that a debt will	Although the provision for likely bad debts (£13.0 million) is material in relation to sundry debtors (£28.3 million), the year on year assessments based on aged

not be paid then the carrying amount will be adjusted to the probable recoverable amount of zero. The Council carries out a regular assessment of aged debt information from the sundry debtors system. In general, 100% provision is made for debts over two years old, and 50% provision for debts over one year old. In addition, individual debts over £10,000 are considered separately. For council tax and business rates debts, a review is made of collectability in line with current debt recovery performance data.	debt analysis have not highlighted the need for any significant in year movements and the assumptions appear reasonable in the light of subsequent events. These impairment amounts reduce the Short Term Debtors analysed in Note 24.
Provisions	
There are 5 provisions included within the Council's Balance Sheet, 3 of which are in respect of potential damage or injury claims being made against the Council. A further provision relates to a loan guarantee made by the Council. Since the introduction of the Business Rates Retention Scheme from 1 April 2013, billing authorities are required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. The total provision is calculated by the Council (as billing authority) on behalf of the major preceptor (Lancashire Combined Fire Authority), central government and itself. The amount appearing in the Council's balance sheet has been adjusted to include only its share (49%) of the provision.	The main cause of estimation uncertainty relates to the timing and outcome of claims made against the Council. In order to mitigate this level of uncertainty: • detailed monitoring of outstanding/potential highways third party claims is carried out throughout the year. • the Council's future estimated liability under the MMI Scheme of arrangement is based on expert information provided by the scheme administrator. • the potential refunds to business ratepayers has been calculated using the Valuation Office (VOA) ratings list of appeals and the analysis of successful appeals to date. The total value of provisions is not considered to be material (£4.549 million at 31 March 2017 and £3.885 million at 31 March 2016). See 25 Note for details.
Pensions liability	
Estimation of the liability to pay pensions within the Local Government Pension Scheme depends on a number of complex judgements relating to: the rate for discounting scheme liabilities; the rate at which salaries are projected to increase; changes in retirement ages and mortality rates; and expected returns on pension fund assets. A firm of actuaries is engaged by the Lancashire County Pension Fund to provide all the authorities within that fund with expert advice about the assumptions to be applied in calculating the IAS19 figures for accounting purposes.	Regulations governing pension funds ensure the solvency of the fund is protected. A full actuarial valuation is required to be carried out every 3 years, with a projected deficit on the fund being made good by increased contributions from scheme members. Although the net pension liability has a significant impact on the Council's Balance Sheet, the regulatory arrangements for funding the deficit mitigates any risk to the financial position of the Council.
Fair values estimated for financial Instruments	
The Code requires that fair values for financial instruments are estimated and, where appropriate, reported. Such estimates require technical calculations and knowledge of market conditions prevailing at the valuation dates. The Council uses its professional treasury advisers, Arlingclose, to support this process, and to undertake most of the calculations.	The work done by Arlingclose uses expert understanding of market conditions, and recognised measurement techniques, so the estimates reflected in the financial statements and the underlying data used to calculate them are both considered to be reliable and the scope to use judgement and change assumptions limited.

ACCOUNTING POLICIES

GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the financial year 2016/17 and its position at the year-end of 31 March 2017. The Accounts and Audit (England) Regulations 2015 require the Council to produce an Annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) , supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and the accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

The Code of Practice specifies the principles and practices of accounting required to prepare a Statement of Accounts which provides a true and fair view of the financial position and transactions of the Council and is based on approved international accounting standards, except where these might conflict with specific statutory accounting requirements.

In accordance with the Code, the Council has selected a number of accounting policies which it feels are the most suitable to its particular circumstances for the purpose of providing a true and fair view of the financial position and transactions of the Council. Policies are reviewed regularly to ensure their appropriateness and are changed as necessary to maintain this position.

The concepts that the Council has regard to in selecting and applying these policies are:

Qualitative characteristics of financial information:	Revenue accounting concepts:
• Understandability • Relevance • Reliability • Comparability	• Accruals • Going concern • Primacy of legislative requirements

Accounting policies can be defined as the principles, bases, conventions, rules and practices applied that specify how the transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves.

ACCRUALS OF EXPENDITURE AND INCOME

The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of when cash payments are made or received. Where expenditure and income have been recognised but cash has not been paid or received a creditor or debtor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of the debtor is written down and a charge made to revenue for the income that might not be collected.

Supplies and services are recorded as expenditure when they are received. When they are held for future use they are carried as inventories on the Balance Sheet. Fees, charges and other amounts due are recorded as income when goods are sold or services delivered.

Interest receivable on investments, or payable on borrowing, is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Council tax and non-domestic rates are accrued for in the same way as other Council income, and are recognised in the Taxation and Non-specific Grant Income line within the Comprehensive Income and Expenditure Statement when it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority, and the amount of the revenue can be measured reliably. As a billing authority the difference between the council tax and non-domestic rates income included in

the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued council tax and non-domestic rates income will be available from the information that is required to be produced in order to prepare the Collection Fund Statement.

CARBON REDUCTION COMMITMENT SCHEME

The Council is required to participate in the Carbon Reduction Commitment (CRC) energy efficiency scheme and is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, i.e. carbon dioxide, produced as energy is used. Phase 1 ran from April 2010 until the end of March 2014. The second phase runs from 1 April 2014 to 31 March 2019.

As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

CASH AND CASH EQUIVALENTS

Cash consists of cash in hand and deposits with financial institutions repayable without penalty on demand i.e. current and instant access accounts. Cash equivalents are investments that are readily convertible to cash with up to one month's notice, with insignificant risk of change in value, for example constant net asset value Money Market Funds.

Fixed term investments are viewed as investments rather than cash equivalents, even if the outstanding period falls below one month at the date of the accounts, because of the uncertainty over the degree to which they may be readily convertible to cash.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Instead it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (Minimum Revenue Provision). This is achieved by means of an adjustment between the General Fund balance and the Capital Adjustment Account in the Movement in Reserves Statement.

EMPLOYEE BENEFITS

Benefits payable during employment

Employee benefits including salaries, paid annual leave, paid sick leave and non-monetary benefits (for example the value of lease cars) are charged to the surplus or deficit on the provision of services. An accrual is made for the cost of holiday entitlements (including flexi leave or time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the year in which the employee takes the benefit. The accrual is charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement but then reversed out through the Accumulated Absences Adjustment Account in the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. The liability for termination benefits is recognised at the point when the Council can no longer withdraw the offer of benefits or when the Council recognises costs for a restructuring that involves the payment of termination benefits. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners.

Post-employment benefits

Employees of the Council are members of 3 separate pension schemes:

- Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The NHS Pension scheme, administered by EA Finance NHS Pensions
- The Local Government Pension Scheme (LGPS), administered by Lancashire County Council

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.
However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme in the year. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Lancashire County Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future

payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on the market yields at the reporting date on high quality corporate bonds.

The assets of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value.

The change in the net pension's liability is analysed into the following components:

Service cost comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year. This is allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are charged to the surplus or deficit on the provision of services in Comprehensive Income and Expenditure Statement as part of non-distributed costs.
- Any gain or loss on settlement – arising when the Council enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan.

Net interest on the net defined benefit liability comprising:

- The change during the period of the net defined benefit liability that arises from the passage of time. This is charged to the Comprehensive Income and Expenditure Statement within the financing and investment income and expenditure line.

Re-measurement of the net defined benefit liability comprising:

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability.
- Actuarial gains and losses - changes in the present value of the defined benefit obligation resulting from: a) experience adjustments (the effects of differences between the previous actuarial adjustments and what has actually occurred) and b) the effects of changes in actuarial assumptions.

Contributions by scheme participants

- The increase in scheme liabilities and assets due to payments made into the scheme by employees. (where increased contribution increases pensions due to employees in the future).

Contributions by the employer

- The increase in scheme assets due to payments made into the scheme by the employer.

Benefits paid

- Payments to discharge liabilities directly to pensioners.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. This is achieved by transfers between the pensions fund and the general fund to remove the notional debits and credits for retirement benefits and replace them with amounts actually paid to the pension fund and pensioners and amounts accrued at the year end. The negative balance on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities arising are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

FAIR VALUE MEASUREMENT

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

FINANCIAL INSTRUMENTS

Financial instruments arise when contracts create financial assets and liabilities, and these are recognised on the Council's Balance Sheet. Typical financial assets include bank deposits, investments and loans by the Council and amounts receivable whilst financial liabilities include amounts borrowed by the Council and amounts payable.

Financial assets

Financial assets are classified into 2 types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for Sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables

Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the relevant contractual provisions and are initially measured at fair value, then subsequently measured at amortised cost.

For most of the Council's loans and receivables the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has a share in "soft loans", charging less than market rates. If there is a material difference, a charge is made to the Comprehensive Income and Expenditure Statement (debited to the appropriate service), reflecting the present value of the interest foregone over the life of the instrument and the amortised value of the loan on the Balance Sheet is correspondingly reduced. Over the life of the loan, interest is then credited to the Comprehensive Income and Expenditure Statement at a higher effective rate of interest than the rate receivable on the soft loan, with the difference serving to increase the amortised value of the loan back towards its nominal value at redemption.

However, statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable in the financial year – in this case nil.

Available for sale assets

The Council recognises its holdings in Money Market Funds as available for sale assets. These are initially recognised at fair value (the price paid for the holding) and as the holdings are all at constant net asset value, there are no subsequent adjustments to value required and no Assets for Sale Reserve.

Impairment of financial assets

If assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made, the asset is written down and a charge made to the relevant service or to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. For

all financial instruments any differences between charges made to the Comprehensive Income and Expenditure Statement and those required to be met from the General Fund balance are managed by transfers to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. This includes adjustments in respect of stepped interest rate loans, and regulatory requirements in respect of certain debt restructuring and soft loans.

Financial liabilities

Financial liabilities are initially measured at fair value and are subsequently carried at their amortised cost.

For most of the Council's borrowings, this means that the amount on the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

However, the Council has taken some market loans subject to "stepped" interest rates, where the initial rates payable were lower than over the rest of the loan. Interest charges for these loans are averaged out over the life of each loan and effective interest rates are used to calculate their amortised cost for the Balance Sheet. As the loans were taken before 9 November 2007, however, this impacts on the Financial Instruments Adjustment Account and does not fall on General Fund balances.

Gains or losses on the repurchase or early settlement of borrowings are shown (on the Financing and Investment Income and Expenditure line) in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, if the loan portfolio is restructured with a modification or exchange of existing instruments any premium/discount is included in the amortised cost of the new/modified loan and the impact on the Comprehensive Income and Expenditure Statement is spread over the life of the loan.

Regulations allow the cost of premiums to be spread over the remaining life of the loan repaid or over the life of any replacement loan whichever is longer. Discounts must be spread over the remaining life of the loan repaid or 10 years, whichever is shorter. In these circumstances, the Council spreads the cost of the premium over the remaining life of the replacement debt, whilst discounts are written back over 10 years.

GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS

Government grants and other contributions or donations are recognised in the accounts when the conditions for their receipt have been complied with.

Grants and contributions for which conditions have not been satisfied are included in the Balance Sheet within the relevant grants receipts in advance account. When conditions are satisfied, the grant or contribution is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has not yet been used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been used to fund capital expenditure, it is posted to the Capital Adjustment Account.

HERITAGE ASSETS

Heritage assets are non-current assets held principally for their contribution to knowledge and culture. In particular such assets increase the understanding and appreciation of the Council's history and that of the local area. They are recognised and measured in accordance with the Council's accounting policies on property, plant and equipment though individual heritage assets are recognised subject to the higher threshold of £25,000. Where cost or value is not available and the cost of obtaining the information

outweighs the benefit to the users of the financial statements, the Code does not require that the asset is recognised on the balance sheet. The Council has identified four categories of heritage assets as outlined below.

Civic regalia and coins

Insurance valuations are available for these items. However, the majority are valued at less than £25,000, with only two items above the threshold and, therefore, recognised in the Council's Balance Sheet as Heritage Assets. These items are measured at insurance valuation, which is based on market values.

Art collections, manuscripts and books

These are mainly held in the Council's Museum. Items with a value of £25,000 or over are recognised in the Balance Sheet at the insurance valuation, which is based on market values.

The schedule of items held within this category is reviewed each year and adjusted for additions and deletions or impairments. Formal valuations are reviewed and updated when items are being loaned out to other organisations or where it is considered that there has been a material change to the condition of an asset.

Public/street art, monuments and statues

These items are included in the Balance Sheet at historic cost where such information is available. Heritage assets such as Darwen Jubilee Tower, the War Memorial and various statues have not been recognised in the Balance Sheet as recent information on cost is not available.

Historic buildings

Those buildings that have been identified as having heritage characteristics are all used by the Council for operational purposes and are accounted for within the Council's Balance Sheet as property, plant and equipment. Examples include Blackburn Town Hall, King George's Hall, Blackburn Museum, Lewis Textile Museum, Corporation Park conservatory and Turton Tower.

INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance, for example software licences which are purchased separately from the purchase of hardware, is capitalised when it will bring economic benefits to the Council for more than one year. This category of asset is shown separately on the Balance Sheet.
Intangible assets are measured initially at cost which is amortised over the economic life to reflect the pattern of consumption. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible assets held by the Council meet this criterion.

Regular impairment reviews are carried out and any losses recognised are posted to relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses, and disposal gains and losses are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve for any sale proceeds over £10,000.

The only type of asset that is accounted for as intangible is IT software. Where the software is an integral part of a particular piece of hardware, the two items are treated as one property, plant and equipment asset.

All software is given a finite useful life of between 3 and 5 years, based on assessments of the period that the software is expected to be of use to the Council and amortised on a straight-line basis.

The amortisation is charged to a support services cost centre and then absorbed as an overhead across all service headings in the cost of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

INVENTORIES

The Council's inventories are valued on a variety of bases depending on the nature of the items involved. These bases include cost, average cost and first in first out.

The Code requires inventories to be included in the Balance Sheet at the lower of cost and net realisable value. The different treatment of stocks is not considered to be material.

INVESTMENT PROPERTY

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Industrial and commercial properties held by the Council are not considered to be held solely to earn rentals and/or for capital appreciation. Rather, they are held for regeneration, planning reasons and estate management and, therefore, have been classified as property, plant and equipment.
Investment properties are measured at cost and subsequently fair value. Properties are not depreciated but are revalued annually according to market conditions at year end. Gains and losses on revaluation or disposal are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to the financing and investment income and expenditure line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000 the Capital Receipts Reserve.

LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as lessee

Finance leases

Assets held under a finance lease are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between a finance charge, debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement and the principal element, applied to write down the lease liability.

Assets recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where the ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment are therefore substituted by a revenue contribution in the General fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased asset. Charges are made on a straight line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal and charged to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The Council's net investment in the lease is credited to the same line matched by a long term debtor in the Balance Sheet. Lease rentals receivable are apportioned between finance income credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement and the principal element applied to write down the long term debtor.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where an amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis of rental income.

PRIVATE FINANCE INITIATIVES (PFI)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts in its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value will be balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet will be revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into 5 elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- Lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out

PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES, AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Where a change in accounting policy is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance, that are held for use in the production or supply of goods and services, for rental to others or for administrative purposes, and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided it exceeds the de minimis threshold of £10,000 and provides economic benefits to the Council for a period of more than one year.

Expenditure that maintains but does not enhance the asset or add to its potential to deliver future economic benefits or service potential is charged as an expense when it is incurred (i.e. repairs and maintenance).

Measurement

An asset is initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the case of an asset being acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain would be held in a Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement.

Assets are then held on the balance sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction - depreciated historical cost
- surplus assets – fair value, determined by the measurement of the highest and best use value of the asset.
- all other operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. For non-property assets that

have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Land and buildings included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every 5 years. Valuations are undertaken by qualified valuers, with current experience and knowledge of the state of the market, in accordance with latest appraisal and valuation standards set by the Royal Institution of Chartered Surveyors (RICS).

When an asset is revalued, any accumulated depreciation and impairment at the date of valuation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

A decrease in value will be charged firstly against any balance held in the Revaluation Reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that have been consolidated into the Capital Adjustment Account.

Valuations of vehicles, plant, furniture and equipment are based on current prices, where there is an active second hand market or latest list prices adjusted for the condition of the asset. Infrastructure assets, community assets, and assets under construction are measured at historic cost.

Impairment

Assets are reviewed annually for impairment. Impairment losses are charged against revaluation gains held in the Revaluation Reserve. If these are inadequate then the loss is charged to the relevant line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets calculated on the following bases:

- Buildings - straight line allocation over the useful life of the property (up to 60 years) as estimated by the valuer
- Vehicles, plant, furniture and equipment – straight line allocation over 1-20 years, as advised by a suitably qualified officer
- Infrastructure – straight line allocation over 2-40 years

An exception is made for assets without a determinable useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use for example assets under construction.

The standard approach is that newly acquired assets are not depreciated in the year of acquisition, and assets in the course of construction are not depreciated until they are brought into use. An exception to this is in respect of vehicles purchased outright when this represents better value for money than leasing. Depreciation is also charged on PFI schemes in the year the asset is recognised on the Balance Sheet, in order to be consistent with the minimum revenue provision (MRP) calculation. In these cases a full year's depreciation is charged in the initial year.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use (i.e. it is being "actively marketed"), it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the other operating expenditure line of the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

If assets subsequently fail to meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at their original value adjusted for depreciation, amortisation or revaluations that would have applied.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the other operating expenditure line of the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to former housing disposals (75% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement).

The written off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account in the Movement in Reserves Statement.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

A provision is made when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation but where the timing is uncertain. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate line of the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation.

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than

probable that a transfer of economic benefits will now be required or the settlement will be lower than anticipated, then the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the accounts.

RESERVES

The Council sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover contingencies (unallocated balances). Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate service in that year so that it is included in the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets (Revaluation Reserve and Capital Adjustment Account), financial instruments, retirement and employment benefits and do not represent usable resources for the Council.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Such expenditure generally relates to grants issued by the Council or expenditure on property not owned by the Council. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer is made to the Movement in Reserves Statement from the Capital Adjustment Account, which reverses out the amounts charged so that there is no impact on the level of council tax.

VALUE ADDED TAX (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

Foreword by the Executive Director Resources – Chair of the Primary Assurance Group

Blackburn with Darwen Borough Council recognises that there always will be risks that it must manage effectively. Whilst it recognises that due diligence will not always ensure that it gets things right first time, it continues to put in place assurance frameworks and enhance existing arrangements that are intended to ensure that its system of governance is fit for purpose and has flexibility to meet the challenges that the change agenda brings.

The Resources Directorate has continued to promote the Council's strategic approach to governance and assurance. The developments in governance in 2016/16 included:

- Continuing review and amendments to the Council's Constitution, including the revision of the Council's Local Code of Corporate Governance to take account of the CIPFA/SOLACE Delivering Good Governance in Local Government 2016 framework.
- Completion of director assurance statements, which closely reflect the seven principles of good governance in support of the Annual Governance Statement.
- Ongoing work to implement the information governance strategy and related policies and procedures.
- Continuing embedding of information security awareness through the e-learning toolkit, and monitoring staff completion of training.
- The development and implementation of a Counter Fraud Risk Register.
- Strengthening of risk management arrangements through the implementation of a revised risk register template to improve the monitoring arrangements.
- Revision of the Medium Term Financial Plan and Capital Programme, which included a senior management structure review and amendments to the roles and responsibilities of chief officers.
- Ongoing scrutiny of the Workforce Review programme by the Workforce Programme Board.
- Completion of the Audit & Governance Committee self-assessment to evaluate its effectiveness.
- The introduction of a formalised, structured member training programme.
- The Audit & Governance Committee more routinely inviting senior officers to attend meetings and holding them to account for actions to address significant issues identified by Audit & Assurance
- The review of significant partnerships and external bodies the Council is represented on to confirm the Council representation is appropriate and the governance arrangements in place are adequate.
- Detailed review and challenge of corporate risks by the Audit & Governance Committee.

SCOPE OF RESPONSIBILITY

Blackburn with Darwen Borough Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically and effectively. It 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 and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Audit & Governance Committee fulfils the core functions of an audit committee, as identified in CIPFA's Audit Committees - Practical Guidance for Local Authorities and Police (2013 Edition). It monitors and responds to the work of internal and external audit and has overall responsibility for reviewing the framework of corporate governance.

The Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government 2016". A copy of the Code is on our website at www.blackburn.gov.uk; it is contained within the Constitution. This statement explains how Blackburn with Darwen Borough Council has complied with the code and it meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an Annual Governance Statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council 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 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 it can therefore only provide reasonable, and not absolute, assurance of effectiveness. It is based on a continuous process that is designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of both those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Blackburn with Darwen Borough Council for the year ended 31 March 2017 and up to the date of approval of the annual statement of accounts.

THE GOVERNANCE FRAMEWORK

The Council has had robust corporate governance and management arrangements in place for many years which have led to good financial management, the delivery of efficiencies and planned investment in priorities. The Council is already implementing improvements to these business systems and processes.

Some of the key features of the governance framework are set out in the following paragraphs.

1. **Identify and communicate the vision and intended outcomes for citizens and service users.**
   The Council has a Corporate Plan in place which is reviewed annually and approved at Policy Council. This was developed using the latest information about the needs of people of Blackburn with Darwen, the challenges and opportunities it faces as an organisation and borough and also responds to what residents have identified, focusing on what is needed to achieve and the priorities over the period of the plan. The plan is published on the Council website.

   Corporate Plan targets are monitored at departmental management team meetings, and dedicated performance challenge meetings between the Deputy Chief Executive and Directors, with briefings being held for Executive Members reporting to Executive Board six monthly (quarter 2) and year end (quarter 4). During the performance challenge meetings a robust integrated performance challenge framework continues to be implemented and in addition to Corporate Plan performance metrics, key

issues that have been highlighted in Director Management Accountabilities Framework (MAF) Dashboard Reports are also challenged for all portfolios. This allows for any cross cutting issues to be identified, with the implications being fully discussed and remedial actions being agreed.

The Medium Term Financial Strategy is reviewed at Finance Council, and builds upon the priorities agreed at Policy Council and identified within the Corporate Plan. The Corporate Plan update for 2016/2019 was approved by Policy Council in December 2016. Whilst the corporate priorities have remained the same, a new list of pledges has been developed for each Portfolio. A Corporate Plan Technical Appendix 2016/19 has also been developed to include measures and targets for the next 3 years; this was approved at Policy Council in December 2016.

2. Review the vision and its implications for the authority's governance arrangements.

The Council's vision is guided and influenced by the longer term community vision, which is owned by the Local Strategic Partnership (LSP) and is currently encapsulated within the 2030 vision statement.

In addition the LSP has developed and launched a medium term plan: "Plan for Prosperity 2014-20" which was endorsed by the Local Government Association Health and Wellbeing Board peer review team.

The Council reviews its vision, which is focused on short to medium term ambitions, as and when required, for example when new priorities emerge or if there is a change of leadership. Changes to the vision and ambitions are generally consulted upon with executive members, chief officers and overview and scrutiny chairs, prior to annual Policy Council, which discusses and ratifies the vision and priorities.

The Council will achieve good governance by working with the LSP to provide the vision for its communities and leading by example in its decision-making processes and its service delivery.

3. Translate the vision into objectives for the authority and its partnerships.

The Council plays a key role within the Blackburn with Darwen LSP, which is an overarching body made up of representatives from the public sector, local business and the voluntary, community and faith sectors. The aim of the partnership is to help make the borough the best it can possibly be, and all members of the LSP Board are committed to delivering improvements for the borough, which are outlined in the Plan for Prosperity.

The priorities are:

- Infrastructure and housing
- Business investment and innovation
- Employability
- Quality of life
- Image and marketing

The Council continues to place these at the heart of everything that it does, and all of our delivery priorities outlined within the Corporate Plan help us contribute to delivering on the vision.

At the same time as consulting on the vision and ambition, the Council's Corporate Funding and Strategy Team work with officers to identify what will be done to deliver the ambition and how progress against this delivery will be measured. This is currently encapsulated within the Technical Appendix that accompanies the Corporate Plan.

The Corporate Funding and Strategy Team also work with service departments to ensure that appropriate responsibilities for delivery are built into departmental business plans. The agreed performance measures and activities are then monitored through the Performance Management Framework.

4. Measure the quality of services for users.

The Council last undertook a Residents Survey in 2014. The results from this survey for the question "Overall, how satisfied or dissatisfied are you with the delivery of council services". Reported that more than seven out of ten (70%) of respondents were either very or fairly satisfied overall with the delivery of council services.

Customer / resident satisfaction with the services they receive, for the council tax that they pay, has always been a key priority for the Council, and as such key measures are included in the current Corporate Plan and customer service is an embedded principal in all council work and specific arrangements exist within statutory services around adults and children social care.

5. Define and document the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.

The Council is legally and constitutionally obliged to maintain and keep up to date its constitution. The Council Constitution was updated in December 2016 and May 2017 to reflect the resolutions/decisions made at Full Council since July 2016. This included changes in organisational structure previously noted and agreed, statutory changes and changes to the delegations.

The annual update also reviewed Executive Member portfolio responsibilities and the Council's strategic objectives. Amendments are made as necessary during the course of the year to reflect changes in the law and others changes which would require full Council approval. The Constitution is due to be further reviewed and updated this year.

The Council has adopted the 'strong leader model'. The Council's Constitution sets out the relative roles and responsibilities of Executive and Non Members, Officers and Committees. It defines, through the procedure rules, how day-to-day activities must be undertaken and it allocates statutory responsibilities to named individuals. The decision-making processes are also defined by the Constitution and Executive Member or key decisions may only be taken after both the Finance and Legal departments have been consulted.

The respective roles of the Section 151 Officer, Monitoring Officer and Senior Information Risk Officer (SIRO) ensure legality, financial prudence and transparency in transactions in accordance with legislative requirements.

The Council is proactive in supporting the development of partnership bodies both with other public sector agencies, like health and the police, and with representation from the business and community sectors. This is principally through the development of the LSP and its range of sub groups but it also involves other significant partnership projects. Governance arrangements are set out in the Constitution.

The Council has introduced a procedure for recording and publishing decisions made by officers, in line with the Government's transparency agenda and the Access to Information Procedure Rules in the Constitution. Such decisions are subject to the scrutiny arrangements outlined in the Constitution. Staff training and workshops have been held to introduce these new arrangements.

6. Develop, communicate and embed the codes of conduct and define the standards of behaviour for members and staff.

The Council Constitution contains codes of conduct for Members. New Members accept their code of conduct as part of their Acceptance of Office declaration. They are also provided training on the Code of Conduct as part of their induction. All Members need to complete and submit a 'General Notice of Registrable Interests' form, which includes information relating to gifts, hospitality and pecuniary interests. These are published on the Council website. New staff appointees sign the staff Code of Conduct as part of their induction. In addition, each Department maintains a register of gifts and

hospitality and of personal interests in accordance with the recently revised Standing Financial Instruction 12 – Register of Personal Interests. The latter are reviewed at least annually. The Employee Code of Conduct was updated in October 2013 and reflected in the Constitution.

7. **Review the effectiveness of the decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality.**
The Constitution provides the framework for decisions making. It includes delegations to various committees, Executive Members and officers, and also scrutiny arrangements for holding decision makers to be held to account. The decision making process is set out in Article 13 of the Constitution and responsibilities are identified in Part 3. These were updated and approved at Annual Council in May following the latest review of the Constitution. The Monitoring Officer also holds and maintains a recorded of sub-delegations by each Chief Officer, and is also responsible for ensuring lawfulness and fairness of decision making.

External formal monitoring of the Council's data quality arrangements are no longer required by external audit, however the Council's previous monitoring arrangements have continued to be operated. Council processes have been reassessed in light of the requirements of the Single Data List published by the Department for Communities and Local Government. Training and awareness raising sessions continue to be delivered as and when required, alongside formal checks on performance indicator files and monitoring / recording processes. The Data Quality Policy (Performance Data) was refreshed to reflect the changed national reporting arrangements and implementation of new local arrangements (such as electronic file management). The Policy was endorsed by Audit Committee. Work is continually underway to assess the Council's compliance with the Government's Code of Practice on Transparency, and any areas recommended for improvement will be addressed and monitored through our existing data quality arrangements.

Over the course of the year the Council has continued to carry out equality analysis and impact assessments prior to key decisions taken at the annual Finance Council. The Council has, again, revised its Equality Impact Assessment (EIA) Toolkit and reviewed its decision-making processes to embed a robust and mandatory process which helps demonstrate due regard of the impact of service reviews on protected groups, staff and local residents, whilst ensuring a level of bureaucratic balance with the introduction of a new 'screening' element to the EIA process. In line with legislative requirements, Senior Management Teams and Elected Members within respective service areas were engaged in understanding the outcomes of consultations and the impacts of decisions as part of the organisational transformation and downsizing.

The annual Audit and Assurance Plan sets out the internal audit resources and skills required to deliver an effective internal audit service. The staff resources are considered adequate for the Council's current needs to ensure that it meets the requirements of the Accounts and Audit Regulations. The resources are prioritised to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes in the annual Audit and Assurance Plan, which is approved by the Audit & Governance Committee. Reviews of these areas are required to provide an annual internal audit opinion which contributes to the Annual Governance Statement.

8. **Review the effectiveness of the framework for identifying and managing risks and demonstrate clear accountability.**
Overarching responsibility for risk management lies with the Management Board, with the corporate risks being owned by members of the Executive Team or Management Board. These are monitored on a regular basis by the Corporate Risk and Resilience Forum (CRRF) which is led by the Director of Finance and IT. The Corporate Risk Management Strategy and Framework 2015/20 sets out the structure of the risk management groups and risk management roles and responsibilities. It also includes the terms of reference for the groups responsible for monitoring risk management arrangements and activity, and includes risk management guidance for decision makers and self-challenge questions for report writers. The Risk Management Toolkit and risk register ensure a

consistent approach to risk management across the Council. Each department has its own risk registers and risk champion and is required to consider risk at each departmental management meeting. The Decision Making templates have been revised to include reference to risks. The Management Accountability Framework (MAF) Director's Exception/Dashboard Report also contains a risk section. The corporate risk register is considered by Management Board on a quarterly basis. Risk management reports, including corporate risks, are also presented at each Audit & Governance Committee meeting and the Committee carries out a detailed review and challenge of a selection of risks at each meeting.

Biannually Directors are required to undertake a self-assessment of the effectiveness of controls within their own areas of responsibility and to identify any areas of concern and what they are doing to tackle them. This is reported to the Chief Executive through the MAF.

The reports cover the effectiveness of the governance arrangements in Departments (performance, budget management, the management of priorities, information security, risk management, health and safety and significant partnerships), identifying weaknesses and remedies. MAF is an evolving process and refinements and extensions to its coverage will continue.

The Primary Assurance Group (PAG) draws together the sources of assurance, including those provided through MAF, and having challenged them produces the Annual Governance Statement for consideration by the Audit & Governance Committee's and the Chief Executive. The PAG is chaired by the Deputy Chief Executive and has the Monitoring Officer and SIRO and Section 151 Officer as members. The Chair of the Audit & Governance Committee also attends the meeting to oversee the annual governance process.

The Council produces integrated financial monitoring reports covering revenue and capital expenditure. The Council has introduced a new Financial Management System from 1st April 2017, this will produce working efficiencies, cost savings and facilitate the production of more timely and detailed information to Members and Officers at all levels.

The Departmental Business Continuity Plans and the Functional Emergency Plans are constantly being reviewed and streamlined. The Emergency Plans now have Standard Operating Procedures (SOPs), whereby a "plan on a page" was requested by the Executive Team to assist them in assimilating information when/if they have to attend the Strategic Co-ordinating Centre at Police Headquarters. This will be replicated for the Departmental Business Continuity Plans and then a strategic plan on a page showing critical functions and risks will be created for Chief Officer use.

The corporate Emergency and Business Continuity plans are tested annually in alternate years. All departmental plans are also tested during the exercises, with any actions required identified and reported to Management Board.

All employees have responsibility for their own and other people's health and safety. The overall responsibility for health and safety management lies with the Chief Executive. The Corporate Health and Safety policy, which was revised in November 2015, (due to be reviewed November 2017), and system of safety procedural documents outline the arrangements in place to meet the Council's statutory duties.

Corporate face to face training courses for employees are available in a bite sized format and are available on request. E-learning safety packages are freely available to all Council employees via the 'Me Learning' portal.

A rolling programme of announced and unannounced audits are in place for the Council and Schools, quarterly compliance checks are emailed to Directors to help support a culture of safety in their area of work.

The trend in employee accidents through 2016/17 has remained at a similar level to 2015/16. However the accidents reported to the Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) has decreased, and although there is no set target for RIDDOR reportable accidents this would have been lower than previous targets set (8 for the year).

None of the RIDDORS have highlighted any major cause for concern, investigations and subsequent actions have been implemented where required.

Near miss reporting is still low across the organisation, however the new Health and Safety system supports ease of reporting and poster information relating to Near Misses has been advertised across all Council buildings and via the intranet site

There is a corporate Health, Safety and Wellbeing delivery model now available on the intranet. This identifies the core service that will be delivered to all services within the Council to assist them in achieving compliance with health and safety legislation. In addition to the core service delivery, there is an opportunity for departments to purchase extra support to provide additional dedicated operational assistance, training, and onsite guidance should it be needed to achieve continuous improvement in health, safety and wellbeing standards and culture.

9. **Ensure effective counter-fraud and anti-corruption arrangements are developed and maintained.**
The Audit & Assurance Team takes part in the National Fraud Initiative on behalf of the Council and monitors the completion of the fraud awareness e-learning package by staff. It also monitors whistle-blowing calls received by the Council and carries out investigations into potential or suspected non-compliance with financial policies and procedures or financial irregularities.

The Council's Counter Fraud Policy Statement and Strategy 2016/2021 was approved in March 2016. The Statement and Strategy have been prepared in accordance with the CIPFA Code of Practice on managing the risk of fraud and corruption for public service organisations (2014). The document sets out the Council's approach to the management of fraud risks and defines responsibilities for action.

Having considered all the principles, the organisation has adopted a satisfactory response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

10. **Ensure effective management of change and transformation.**
The Council is continuing with a series of transformational projects which will generate efficiencies during 2017/18 and in future years. A Workforce Review Programme continued during the year. The aim of this was to determine the best and most efficient shape and range of roles required to deliver effective services taking account of available technologies and new ways of working. The delivery of the Programme has been overseen by the Workforce Review Programme Board, chaired by the Deputy Chief Executive. The Board will drive and monitor the individual reviews that are being undertaken to closely manage the achievement of savings required, as set out in the Medium Term Financial Strategy, and ensure that the organisation has the flexibility and agility within its workforce to continue to respond to the emerging priorities during 2016/17 and future years.

11. **Ensure the financial management arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* (2016).**
The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016).

12. Ensure the assurance arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit* (2010).

The Council's assurance arrangements broadly conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010). The Statement identifies that the Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

i. championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and

ii. giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

To perform this role the Head of Internal Audit:

iii. must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;

iv. must lead and direct an internal audit service that is resourced to be fit for purpose; and

v. must be professionally qualified and suitably experienced.

13. Ensure effective arrangements are in place for the discharge of the monitoring officer function.

The functions of the Monitoring Officer are set out in the Council's Constitution. The role of Monitoring Officer forms part of the specific responsibilities of the Director of HR, Legal and Corporate Services.

14. Ensure effective arrangements are in place for the discharge of the head of paid service function.

As Head of the Paid Service, the Chief Executive is responsible for ensuring that Directors and Members both understand the need for sound internal controls and to apply them in practice.

15. Undertake the core functions of an audit committee.

The Audit & Governance Committee provides independent assurance on the adequacy of the risk management framework, overall governance and the associated control environment. It oversees the integrity of financial reporting and also provides independent scrutiny of the Council's financial and non-financial performance to the extent that it affects its exposure to risk and weakens the control environment.

The Audit & Governance Committee is responsible overall for monitoring compliance with policies and procedures and for setting defined standards, where need be; this includes responding to reports from the Council's external auditor.

In 2014/15 the Audit & Governance Committee undertook a self-assessment exercise to assess its effectiveness against the criteria outlined in the CIPFA's Audit Committees - Practical Guidance for Local Authorities and Police (2013 Edition). This resulted in a number of improvements being implemented in 2015/16 and 2016/17, including a revision to the Committee's membership and terms of reference. In January 2017 the Committee also completed the CIPFA assessment tool to evaluate its effectiveness and identify any areas to improve, and members also completed individual self-assessments to identify any personal training needs and future development of the Committee. This will establish a baseline to monitor the effectiveness of the Committee going forward.

16. Ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

Directors are responsible for ensuring that, within their areas of responsibility, they establish and maintain effective systems of risk management, governance and internal control, complying with

legislation, grant rules, the Council's own rules, etc. This includes both responding to recommendations by Inspectorates and working with partner organisations.

A key element of assurance available to the Council and the Audit & Governance Committee is the assurance statements made by each of the directors that support the Annual Governance Statement. These require each director to take personal responsibility for the operation of adequate and effective governance and internal control systems, which include compliance with applicable laws and regulations. The director's assurance statements closely reflect the seven CIPFA/SOLACE principles of good governance and the Council's Local Code of Corporate Governance.

The NHS Information Governance (IG) Toolkit–V14 was submitted by the Council's Information Governance Team and has been confirmed by Health and Social Care Information Centre (HSCIC) assessors and published on the NHS IG Toolkit website. It has been assessed as satisfactory. This enables the Council to exchange data with NHS bodies.

Information Asset Registers are in the process of being updated, initially solely by IG in order to reflect the new requirements in the General Data Protection Regulations (GDPR) to have detailed records of all information assets including how we share those assets and who we share them with. The Register will need to include new items such as legal gateways used in the sharing of data and whether a privacy assessment has been carried out. This is a substantial piece of work which will require intensive resource during quarters 1-3 of 2017/18.

The datashare website has been operational for just over 2 years. Datasets have been uploaded where required. In addition to the recommended datasets for Local Government transparency, we have assisted the Parish Councils by including their required publication datasets to our datashare, as well as allocating each Parish a page on our corporate internet site to publish their minutes, accounts and agendas. Frequently requested Freedom of Information (FOI) requests continue to be monitored and IG are actively encouraging departments to consider routine upload to the Transparency pages in order to reduce the burden of repeat FOI requests.

Successful transition to a new e-learning platform has resulted in better management information allowing the Council to demonstrate compliance with the requirement to have mandatory training in Data Protection and Information Security. Progress will continue to be monitored as we enter the appraisal window for 2017/2018 as this year will show a full 12 month data capture for the first time. Discussions are already underway in relation to new content for 2018/2019 in order to refresh the courses, enabling a better user experience more relevant to the daily functions of employees within the Council.

The GDPR will replace the EU Data Protection Directive on 25th May 2018 without the need for any national legislation to be enacted. It will supersede the Data Protection Act 1998 unless the Government takes specific measures prior to the GDPR taking effect. The IG team have created an initial Gap Analysis showing the Council's current compliance with new GDPR requirements. This has been issued to the SIRO and the Audit & Governance Committee. Compliance with GDPR is going to take a considerable amount of resource. Corporate Risk 13 was updated in March 2017 to reflect this. IG will continue to work through the requirements, updating processes and policies for the next 11 months until the date of GDPR implementation.

The IG team continue to provide advice, guidance and assistance in the relevant areas of legislation, are qualified to ISEB level in Data Protection and Freedom of Information and will engage with professional training providers over the course of the next 12 months to stay up to date with upcoming legislative changes and the introduction of the new GDPR.

Audit & Assurance produces an internal audit charter and annual plan which are approved by the Audit & Governance Committee. The annual plan examines the Council's systems of risk

management, control, and governance. It reports to individual managers on the outcomes of its audit reviews, agreeing management actions with them. It also regularly reports to the Audit & Governance Committee on progress and outcomes of its planned work. At the year end, it produces a statutory Head of Internal Audit opinion report which is part of the Annual Governance Statement process. Routinely during the year Audit and Assurance reports to the Chief Executive and Audit & Governance Committee on governance matters of particular importance through its independent reviews of MAF Exception reports.

17. **Whistleblowing and for receiving and investigating complaints from the public.**
The Council's Whistle-blowing and Corporate Complaints Policies are available on the Internet. Both define what steps will be taken in investigating complaints from staff or members of the public.

18. **Identify the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.**
The Council remains committed to elected member training and development, and continues to assess the development needs of all elected members. There is a robust induction programme for newly elected members to the Council and portfolio areas. The Council also maximises the development opportunities offered by North West Employers Organisation.

The Council needs to consider the development needs and resilience of senior officers and ensure that senior officers have the required knowledge, skills and experience to deal with the public sector reform agendas.

The Officer Management Board has agreed to review the impact of the significant downsizing, reduction in senior management positions and de-layering during 2017/18 to ensure the organisation is able to carry out its responsibilities.

19. **Establish clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.**
As well as the monthly edition of the online version of The Shuttle a new hard copy called the Shuttle Extra will be published twice yearly and delivered to homes throughout the borough. Both the hard copy and online versions contain latest news and updates about Regeneration projects, events, achievements and honours, advertising opportunities and information about the Council budget and Council Tax. Automatic updates whenever a new article is published on the Councils website are also available via social media channels. Financial and performance information is also available on the Council's website.

The Council undertook an extensive programme of consultation and engagement when developing its Local Council Tax Support Scheme. The Scheme is reviewed at the first full Council in January each year.

A key commitment of the Corporate Plan is "Your Call", where the Council are committed to working together with residents; businesses and partners, to develop local solution to local problems. This approach is predominantly delivered through the Your Call campaign, which encourages local residents to come forward with ideas to improve their streets, neighbourhoods and towns, and they are supported by the Council to implement their ideas.

The Council website provides access to Council papers, including Committee agendas, minutes, relevant reports and decisions.

The Council takes the views of all the groups into account when preparing its budgets. In advance of final decisions on the budgets the potential impact on individuals, services and the voluntary and community sector is considered. As each service is reviewed and final recommendations are made EIAs are undertaken.

20. Enhance the accountability for service delivery and effectiveness of other public service providers.

The Council is proactive in supporting the development of partnership bodies both with other public sector agencies, like health and police, and with representation from the business and community sectors.

The LSP Board is the overarching and strategic management body that has responsibility for the direction and overall corporate governance of the LSP. The Board is responsible for monitoring the Plan for Prosperity.

Blackburn with Darwen was one of the first areas in the country to set up the new Health and Wellbeing Boards as part of government changes to the NHS. The board, run by Blackburn with Darwen Council, leads on improving the strategic co-ordination of planning and buying local health services, social care for both children and adults and public health services to promote more local control over those services. All organisations working in those areas will, through the board, develop a shared understanding of local need and agree the best strategy to meet that with the funding and resources available.

The Blackburn with Darwen Community Safety Partnership (CSP) has merged with the CSP's of Burnley and Rossendale following agreement by members and the Police and Crime Commissioner of Lancashire. Blackburn with Darwen administers the new Pennine Lancashire Community Safety Board and retains its duty as a Local Authority alongside the Police, Fire Service, Clinical Commissioning Groups, National Probation Service and Community Rehabilitation Company to work together to reduce crime and anti-social behaviour.

The Partnership has grown in size and strength and now includes a wide range of partners from both the statutory and voluntary sector from across the Sub Region. Collectively it is achieving positive outcomes for vulnerable individuals, families and communities.

Beyond the borough the Council is working in partnership with Councils across Lancashire on the Combined Authority agenda to develop joint functions to support regional investment and transport. This will support and enhance the Council's efforts to boost the local economy, create jobs and improve transport and planning, which will benefit the residents of the borough.

Work is also ongoing with colleagues from the NHS to work in partnership to transform the health and social care system across Pennine Lancashire, as part of the Lancashire and South Cumbria Sustainability and Transformation Plan

21. Incorporate good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements.

The Council continues to undertake sound governance arrangements with its partners. Significant partnerships have continued to be identified and assessed since 2012 via the refreshed toolkit which was updated in 2014 following an audit review. The Significant Partnerships Register was updated in October 2015 and was signed off at Audit & Governance Committee in January 2016. The register is updated on an annual basis and compliance is monitored by the Corporate Risk and Resilience Forum with targeted sampling through the internal audit plan. The wider partnership structure and constitution have now been assimilated into corporate processes following the acquisition of new partnerships via community safety and health and wellbeing.

During 2016/17 the Council introduced new shared management arrangements, and associated governance controls, following approval of the new five year partnership agreement with Capita for the development, delivery and modernisation of a range of place-based services.

The Council is also the host authority for the Lancashire Police and Crime Panel. The Council provides legal and secretarial advice and support to enable the Panel to carry out the functions and responsibilities set out in the Police Reform and Social Responsibility Act 2011 and the Regulations made under it.

Title	CIPFA Criteria	2015/16 Issue	2016/17 Action taken
1 Procurement (brought forward from 2013/14)	1	The workforce review of Commissioning, Procurement and Contracts is underway. Upon its completion procurement processes will be strengthened and also address the absence of a low value construction framework.	The workforce review has been completed and a centralised Commissioning and Procurement Service (CAPS) has now been established, effective from 1st October 2016. A full review of processes, current contracts and systems will be conducted in the coming months, driven also by the need to implement the new Civica Financials P2P (purchase to pay) system which has been rolled out across the organisation from 1st April 2017. Work is also being undertaken in conjunction with Capita to develop a joint business case around future procurement and contracting with the objective of delivering multi-million pound savings over the next 3 to 5 year.
2 Payroll (brought forward from 2013/14)	1, 8	Following the implementation of the new HR & Payroll system to further strengthen processes to ensure that it delivers the efficiency savings and associated control improvements in 2016/17.	The core HR & Payroll system is now fully operational and we are in the process of completing the final stages of implementing full manager and employee self-service. This will realise further efficiencies both within the HR service but also for managers and employees due to the automation of leave & time management. There is a robust action plan in place responding to annual audit reviews and service improvements continue to be introduced to enhance the required controls for the Council and external customers.
3 Partnership Arrangements (brought forward from 2014/15)	1, 3	Further development of alternative partnership arrangements (as required by central government) including the implementation and delivery of the new five-year contact with the Council's technical services partner in 2016/17.	Procurement of a new technical services partner concluded successfully in the spring and the new place based partnership with Capita commenced on 1st July 2016 for an initial 5 years. New governance arrangements have been established, including new shared management arrangements, and a number of partnership boards are now meeting regularly to review performance, oversee the partnership and jointly develop business cases for change where appropriate. A number of services provided by Capita under the previous partnership were also successfully transferred back to the Council during the first half of 2016. A conflict of interests protocol is in the process of being finalised to ensure sufficient safeguards are put in place to ensure no conflict of interest in future project governance.
4 Adult Social Services financial position (brought forward from 2014/15)	1, 3, 4	The implementation of provisions within the Care Act 2014 has placed greater demands for services (which have been recognised	Financial and resource pressures continue during 2016/17 due to ongoing increases in demand and demographic pressures. Pressures on the budget are considered routinely

		nationally) together with the growing complexity of service user needs and delays in the delivery of efficiency programmes has resulted in a budget overspend of over £2m. The challenge of managing the budget within these pressures, whilst developing effective partnerships with the NHS will continue in 2016/17.	within the Senior Leadership Team and with Members through the Senior Policy Team and decisions taken accordingly. Demand Management strategies are being applied and commissioning spend is scrutinised via a Virtual Panel. The department is implementing efficiency programmes across the service and managers are tightly managing budget lines.
5 Growth Programme	1, 3, 5	The delivery of the Pennine Reach programme (bus station element) did not progress in accordance with expectations. Careful management of the Growth Programme will be required to ensure that expectations, particularly in relation to the Council's medium term financial strategy are met.	A restructure has taken place which provides new leadership in the former Planning and Prosperity Department. The new department places a much stronger emphasis on development and growth and provides specialist support for growth and investment in the Borough. A Growth and Development Board has been established which will monitor the programme. The membership includes the Chief Executive, Deputy Chief Executive, Council Leader and Deputy Leaders.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review of effectiveness is informed by the work of the members of the Council's Management Board who sign an annual assurance certificate regarding the effectiveness of the governance arrangements in place, the Head of Audit & Assurance's annual opinion report, and also by comments made by the external auditors and other inspection agencies.

The Council regularly reviews its Constitution and has delegated to the Audit & Governance Committee responsibility for reviewing the effectiveness of the governance framework and for reporting to the Executive Board where it thinks that there are issues that must be considered by the Executive.

The Scrutiny Committees set their own annual work plans and report to the Council both quarterly and annually. These Committees continue to monitor the performance and delivery of the Executive, engaging and challenging through a variety of scrutiny review methodologies, traditional reviews, appreciative and collaborative inquiries. Where apposite, Members will utilise Task and Finish Groups outside of Committee to scrutinise and work with Officers on a wide range of issues. Overview and Scrutiny arrangements have been reviewed by Members and revised in order to remain fit for purpose at Annual Council and the arrangements continue to be well received.

The Audit & Governance Committee, in addition to having responsibility for reviewing the Corporate Governance Framework, also has responsibility for reviewing the effectiveness of risk management arrangements. The Committee receives an annual risk management report from the Corporate Risk & Resilience Forum. The 2016/17 report concluded that "the Council continues to maintain robust and effective risk management processes".
The Standards Committee promotes and maintains high standards of Member conduct and monitors the operation of the Code of Conduct. A new Member's Code of Conduct was approved by Council on 30 August 2012 in accordance with the Localism Act 2011. This included new arrangements for dealing with

member complaints. The Committee also examines the training needs of Members relating to the Code of Conduct and if necessary make appropriate recommendations.

The Standards Committee reviews the Member Code of Conduct and Complaints procedures on an annual basis and the latest versions following approvals were included as part of the Constitutional update in December 2016.

Any matters following investigation, which require a hearing for determination of a potential breach of the code of conduct would be considered by the Hearings Panel (Sub Committee of the Standards Committee).

External inspection and assurance by External Audit during the year:

The Council's external auditors noted, in the Annual Audit Letter for 2015/16, that:

- They issued an unqualified opinion on the Council's 2015/16 financial statements.
- Their opinion confirmed that there were no significant amendments required to the accounts as a result of their audit.
- They issued an unqualified Value for Money conclusion for 2015/16.
- They were satisfied that in all significant aspects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.
- The work carried out on the Council's consolidation schedule to support the Whole of Government Accounts, in line with instructions provided by the National audit Office, did not identify any issues for the group auditor to considers.

The external auditors also noted the additional powers and duties available under the Local Audit and Accountability Act (2014). They noted that they did not identify any issues that required them to apply their statutory powers under the Act, including powers to issue a public interest report in respect of their 2015/16 audit.

In their progress report to the Audit & Governance Committee in April 2017 the external auditors were able to state, for the year ended 31 March 2017 that: the findings of their interim work to date: "has identified no material weaknesses which are likely to adversely impact on the Council's financial statements or on their audit approach. They also noted their work had 'not identified any errors impacting on their audit opinion.

We have been advised of the result of the review of the effectiveness of the governance framework by the Audit & Governance Committee / PAG and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

A key element of the annual governance review process is also to identify any significant internal control issues. The Council has adopted the approach recommended by CIPFA which has identified what may be considered generally as a significant issue. These criteria are:

1. The issue has seriously prejudiced or prevented achievement of a principal objective;
2. The issue has resulted in a need to seek additional funding to allow it to be resolved;
3. The issue has resulted in significant diversion of resources from another aspect of the business;
4. The issue has led to a material impact on the accounts;

5. The issue, or its impact, has attracted significant interest or seriously damaged the reputation of the Council;
6. The issue has resulted in formal action being taken by the Section 151 Officer and/or the Monitoring Officer;
7. The audit committee, or equivalent, has advised that it should be considered significant for this purpose, or
8. The Head of Internal Audit has reported on it as significant in the annual opinion on the internal control environment

Significant governance issues identified during 2016/17 are outlined in the following table:

Title	CIPFA Criteria	Issue / Actions being taken	Responsible officer(s)
1 Partnership Arrangements (Brought forward from 2014-15)	3	Implementing robust governance arrangements relating to the management and delivery of the new five-year contract with the Council's technical services partner in 2016/17.	Deputy Chief Executive
2 Adult Services Financial Position (Brought forward from 2014-15)	1, 3, 4	The implementation of provisions within the Care Act 2014 has placed greater demands for services (which have been recognised nationally) together with the growing complexity of service user needs and delays in the delivery of efficiency programmes has resulted in a budget overspend of over £2m. The challenge of managing the budget within these pressures, whilst developing effective partnerships with the NHS will continue in 2017/18.	Director of Adult Services
3 Children's Services Financial Position	1, 2, 3	Maintain awareness and effective management at all levels within the service to monitor and manage demand and budget pressures relating to intervention, prevention and permanence planning to ensure that services and resources are not diverted from elsewhere within the Council.	Director of Children's Services
4 Information Governance	1, 7	Review and strengthen Information Governance policies, systems and processes to ensure compliance with the requirements of the General Data Protection Regulations.	Director of Finance & I.T.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Councillor M Khan
Leader of the Council
Blackburn with Darwen Borough Council

H Catherall
Chief Executive
Blackburn with Darwen Borough Council

GLOSSARY

Accounting policies

Those principles, bases, conventions, rules and practices applied by the Council, which define the process by which transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or loss is to be recognised, the basis on which it is to be measured and where in the revenue account or Balance Sheet it is to be presented.

Accruals concept

The concept that income is recorded when it is earned rather than when it is received and expenditure is recorded when goods or services are received rather than when payment is made.

Actuarial gains and losses

For a defined benefit pension scheme, these are the changes in actuarial deficits or surpluses that arise because either events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

Associate company

This is an entity in which the Council has a participating interest and over whose operating and financial policies the Council is able to exercise significant influence.

Approved budget

The planned expenditure and income, for the financial year in the case of revenue, and over the life of the project in the case of a capital scheme.

CIPFA

Chartered Institute of Public Finance and Accountancy. The Institute provides financial and statistical information for local government and other public sector bodies and advises central government and other bodies on local government and public finance matters.

Capital charges

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital expenditure

Expenditure on the acquisition of a non-current asset or expenditure which adds to (and not merely maintains) the value of an existing non-current asset.

Capital receipts

Income received from the sale of land or other capital assets, which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003. Capital receipts cannot be used to fund revenue services.

Collection Fund

The Collection Fund is administered by the Council to record the receipts from council tax and non-domestic rates and payments to the General Fund and other preceptors including Central Government.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council's control.

Contingent liability

Either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control or a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and democratic core

Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

Current service cost (pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment

For a defined benefit pension scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Defined benefit scheme

A pension or other retirement benefits scheme where the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation

The measure of the cost, or revalued amount, of the benefits consumed during the accounting period relating to the non-current asset. Consumption includes the wearing out, using up or other reduction in the useful life of a non-current asset whether arising from use, passage of time or obsolescence through technological or other changes.

Expected rate of return on pensions assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value

The price at which an asset could be exchanged in an arms-length transaction less, where applicable, any grants receivable towards the purchase cost of the asset

Finance lease

A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

Financial asset

A right to future economic benefits controlled by the Council that is represented by cash, an equity instrument of another entity, a contractual right to receive cash (or other financial asset) from another entity or a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Council.

Financial liability

An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash (or other financial asset) to another entity or a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Council.

General fund

The main revenue fund of a local authority, which includes the net cost of all services financed by local tax payers and Government grants.

International accounting standards

These accounting standards prescribe the methods by which all published accounts should be prepared and presented, and will over time replace UK accounting standards. Includes International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Impairment

A reduction in the value of a non-current asset below its carrying amount in the Balance Sheet.

Infrastructure assets

Non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Interest costs (pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Joint venture

This is an entity which the Council has an interest in and is jointly controlled by the Council under a contractual arrangement.

Minimum Revenue Provision

The minimum amount which must be charged to the Council's revenue account each year and set aside as provision for repayment of debt, as required by the Local Government and Housing Act 1989.

Net book value

The amount at which non-current assets are included in the Balance Sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net current replacement cost

The cost of replacing or recreating the particular asset in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net expenditure

The cost of providing a service after the deduction of any income.

Net realisable value

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Operational assets

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.

Past service cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post-employment benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of the employment. Includes pensions but not termination benefits payable as a result of redundancy/voluntary redundancy, because these are not given in exchange for services rendered by employees.

Precept

A method by which local parishes, Lancashire Police Authority and Lancashire Combined Fire Authority obtain the income they require by Blackburn with Darwen Borough Council adding the precept to its own council tax and paying over the appropriate cash collected.

Property, plant and equipment

Tangible assets (i.e. assets with physical substance) held by the Council for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used for more than one period.

Provision

An amount set aside by the Council for any liability of uncertain timing or amount that has been incurred.

Public Works Loan Board (PWLB)

A Central Government agency which provides long and short term loans to local authorities at interest rates slightly higher than those at which the government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Related parties

Two or more parties are related when at any time during the financial period one party has direct or indirect control of the other party, the parties are subject to common control by the same source or where one party has influence over the financial and operational policies of the other, or both parties are subject to the influence from the same source, to an extent that they might be inhibited from pursuing their own separate interests.

Related party transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made. The materiality of related party transactions should be judged not only in terms of their significance to the Council, but also in relation to its related party.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserve

Amounts set aside for purposes falling outside the definition of a provision are considered as reserves.

Revenue expenditure funded from capital under statute

Expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset, e.g. private sector housing improvement grants.

Revenue support grant

A Government grant in aid of local authority services generally. It is based on the Government's assessment of how much the Council needs to spend in order to provide a standard level of service.

Termination benefits

Amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Code

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (Based on International Financial Reporting Standards).

BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and IT
DATE:	19th September 2017

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2017/18

Based on monitoring information for the quarter 1st June 2017 – 31st August 2017

1. PURPOSE

To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee notes the Treasury Management position for the period.

3. BACKGROUND

3.1 The Council has previously adopted CIPFA's latest Code of Practice on Treasury Management in the Public Services and associated guidance notes. The Treasury Management Strategy for 2017/18, approved at Finance Council in February 2017, complies with both the CIPFA Code and with current Department for Communities and Local Government (CLG) guidance on investments (issued March 2010). The CIPFA Code, Investment Guidance issued by CLG and Audit & Assurance reviews of Treasury Management activities all recommend an enhanced role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the three month period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against the Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper. .

4. KEY ISSUES

4.1 Interest Rates

Since the Bank of England Bank Rate was reduced to 0.25% in August 2016, market interest rates, including the cost of government borrowing, have fluctuated in reaction to political events and announcements. From a broader perspective, rates have remained at very low levels.

4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movements in totals available for investment, both actuals to date and projections for the rest of the year (which have adjusted to allow for anticipated short term borrowing).

Investments made in the period were mainly in "liquid" (instant access) deposits, either bank "call accounts" or Money Market Funds (MMFs). Returns on such investments were low, with MMF rates falling again, to between 0.15% and 0.17%. Two investment bank accounts continue to yield 0.15% but RBS cut its rate to 0.05% from 5 June.

For limited periods, funds were also placed with the Government's Debt Management Office (at 0.10%). The only other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
19-Jun-17	19-Sep-17	Plymouth City Council	5,000,000	0.30%
22-Jun-17	22-Aug-17	Flintshire County Council	3,000,000	0.20%
23-Jun-17	25-Aug-17	Blackpool Borough Council	3,000,000	0.20%
07-Jun-17	15-Jun-17	London Borough of Bexley	5,000,000	0.18%
15-Aug-17	15-Nov-17	Kingston upon Hull CC	3,000,000	0.25%
11-Aug-17	17-Nov-17	National Counties Building Society	1,000,000	0.35%
30-Aug-17	30-Nov-17	Torfaen Borough Council	3,000,000	0.25%

At 31st May, the Council had just over £30M invested. Appendix 2 shows the breakdown of the £20.1 million invested at the end of August.

The Council's average return over the 3 months was around 0.20% (comparable with the previous quarter).

For comparison, benchmark LIBID (London Interbank Bid) rates also remained low. Average rates for 1 month's lending held at around 0.13%, and for 3 months averaged 0.17% (though still on a falling track).

4.3 Borrowing Rates

The cost of long term borrowing through the PWLB (Public Works Loan Board) is linked to Central Government's own borrowing costs. PWLB rates fell in anticipation of, and following, the Bank Rate cut hitting a historic low last summer, then rising up to January 2017, falling again since then.

Average PWLB borrowing rates are historically low. Based on the cost of new "maturity" loan to the Council, 5 year loans remained at around 1.3% (generally between 1.2% and 1.4%), while loans in the 20 to 50 year range were at around 2.55% (generally between 2.3% and 2.7%)

Short term borrowing rates - based on loans from other councils – were also low, as alternative options for lenders (investment rates) were low. There was a slight upward movement up to the end of March (the low point for most local authorities' cash) before a relaxation of rates again in the new year. By the end of August, 3 month loans usually cost below 0.25%, while 6 month/ 1 year loans were between 0.35% and 0.45%.

4.4 Borrowing and Lending in the 3 month period

The Council's CFR (Capital Financing Requirement) is the key measure of the Council's borrowing

need in the long term. It is

(a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)
less
(b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -
less
(c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council's **actual** long term debt was more than £88M below the CFR at the start of 2017/18, (as the CFR increased and long term debt was repaid). The Council has taken no new long term borrowing for several years, and is repaying existing debt at maturity.

We are effectively using "internal borrowing" from available revenue cash balances to part cover this gap. Two benefits of this are:
(a) a net saving on interest (as long term borrowing costs more than investments earn), and
(b) fewer funds held, so a lower risk from default on funds invested.

The rest of the gap is covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and in anticipating future borrowing needs.

Over the period, there was a decrease in short term borrowing of £3.75M, as loans of £52M of were repaid and **£48.25M of new loans** were taken (listed below).

Start Date	End Date	Counterparty	Amount £	Rate
01/06/2017	31/05/2018	London Borough of Havering	5,000,000	0.45%
15/06/2017	29/03/2018	Wokingham Borough Council	5,000,000	0.40%
23/06/2017	05/07/2017	Derbyshire Pension Fund	5,000,000	0.20%
30/06/2017	29/03/2018	Tendring District Council	1,000,000	0.40%
30/06/2017	10/07/2017	Edinburgh City Council	5,000,000	0.20%
04/07/2017	30/04/2018	London Borough of Brent	10,000,000	0.45%
05/07/2017	28/02/2018	Gwent Police Authority	3,250,000	0.26%
10/07/2017	10/04/2018	West Yorks Police Authority	5,000,000	0.43%
18/07/2017	18/04/2018	Kent Police Authority	2,000,000	0.40%
18/07/2017	19/02/2018	Kent Police Authority	2,000,000	0.38%
18/08/2017	19/02/2018	Swansea Pension Fund	5,000,000	0.28%
			48,250,000	

Future deals already agreed by end of period

Start Date	End Date	Counterparty	Amount £	Rate
29/09/2017	19/03/2018	Basildon Council	2,000,000	0.35%
17/10/2017	17/04/2018	Basildon Council	3,000,000	0.35%
29/10/2017	28/10/2018	Oxfordshire County Council	5,000,000	0.45%
30/10/2017	30/04/2018	Kent Police Authority	3,000,000	0.35%
30/10/2017	30/07/2018	Kent Police Authority	3,000,000	0.38%
30/11/2017	29/03/2018	Gwent Police authority	3,000,000	0.27%
			24,000,000	

4.5 Analysis of debt outstanding -

	31st May 2017		31st August 2017	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	20,000		0	
Greater than 3 months (full duration)	43,000		59,250	
		63,000		59,250
LONGER TERM DEBT				
Bonds	21,503		21,503	
Mortgages	17		17	
PWLB	105,345		105,345	
Stock & Annuities	258		258	
		127,123		127,123
Lancs County Council transferred debt		15,992		15,832
Recognition of Debt re PFI Arrangements		68,551		67,842
TOTAL DEBT		**274,666**		**270,047**
Less: Temporary Lending - fixed term		(10,000)		(12,000)
- instant access		(20,075)		(10,095)
NET DEBT		**244,591**		**247,952**

The key elements of long term borrowing included above are:

(a) £21.5M classed as bonds, borrowed from the money markets, largely in the form of "LOBO" (Lender Option, Borrower Option) debt. The overall average interest rate paid on this debt is now around 5%, with individual deals ranging from 4.35% to 7.625%

(b) £105M borrowed from the PWLB at a range of fixed rates, at an overall average rate of around 4.2%. Loans repayable on maturity range from 3.06% to 7.875%, while EIP (Equal Instalment of Principal) loans range from 1.94% to 3.77%.

(c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year – charged provisionally at 2%.

(d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use those new school buildings financed through Public Finance Initiative (PFI) arrangements. The Council's effective control over and use of these assets is thereby shown "on balance sheet", with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax payer as these are incurred through the payments made from the PFI contractor (and are largely offset by PFI grant funding from the Government).

4.6 Issues to note in the period

Over the period as a whole, net borrowing increased and cash balances fell (though short term borrowing went down, investments fell further). Further short term borrowing will be taken over the rest of the year as both long and short term loans mature, and as material capital expenditure is incurred.

If it appears likely that the short run cost of carrying long term borrowing would be outweighed by future interest rate increases, some longer term borrowing may be taken.

Investments will continue to be kept short term, and mainly in liquid deposits.

4.7 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the previous and current year.

Movements in the key indicator – Overall Borrowing against Borrowing Limits – are shown as the first graph in Appendix 4. Our total borrowing at 31st August 2017 was £270M, well within our Operational and Authorised Borrowing Limits for 2017/18 (£312.8M and £322.8M respectively). The Authorised Borrowing Limit is the key Prudential Indicator - loans from the PWLB cannot be taken if this Limit is (or would be caused to be) breached.

This total debt includes the impact on the balance sheet of the recognition of assets brought into use that have been financed through PFI. The accounting adjustments are designed to show our effective long term control over the assets concerned, and the "indebtedness" arising from financing the cost of them. They do not add to the "bottom line" cost met by the Council Tax payer.

As noted at the last Audit and Governance Committee meeting, regarding the position around the end of 2016/17, the high level of short term borrowing caused the Council to breach the Limit it set for itself on the proportion of the Maturity Structure of its Borrowing running for less than one year. The 2017/18 Limit was that no more than 35% of debt held should have a maturity of less than one year. Work is underway to confirm what a more realistic Limit should be, but it is likely that the Mid-Year Treasury Management Strategy Review will propose a higher Limit, probably of 45%.

The breach is not a major issue – Prudential and Treasury Indicators are not hard and fast limits - but highlights the high level of short term borrowing being taken. It occurred mainly as a result of borrowing to take advantage of the opportunity to make savings by making a significant early payment towards the Council's pension costs, covering this and the next two years.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at almost £49M, against the original Limit set for this year of £54.2M.

This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes:

(a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which are then offset by
(b) any lending (up to 364 days).

The high level of short term borrowing being taken in 2017/18 means we could also run close to the Limit originally set for this year. It is therefore likely that the Mid-Year Treasury Management Strategy Review will also propose a modest increase in this Limit.

If there are signs of significant upward movements in interest rates, the borrowing strategy will be reviewed (as noted at 4.6, above).

Our **Fixed Interest Rate Exposure** was maintained at around £115.6M, against the 2017/18 limit of £220 M. This indicator effectively mirrors the previous indicator, tracking the Council's position in terms of how much of the debt will **not** vary as interest rates move. The historically low interest rates prevailing over recent decades led the Council to hold a large part of its debt in this way.

This limit was set to allow for the possibility of higher levels of new long term, fixed rate borrowing, which have not been taken.

5. POLICY IMPLICATIONS	None

6. FINANCIAL IMPLICATIONS
The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

7. LEGAL IMPLICATIONS
The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

8. RESOURCE IMPLICATIONS	None

9. CONSULTATIONS	None

10. STATEMENT OF COMPLIANCE
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

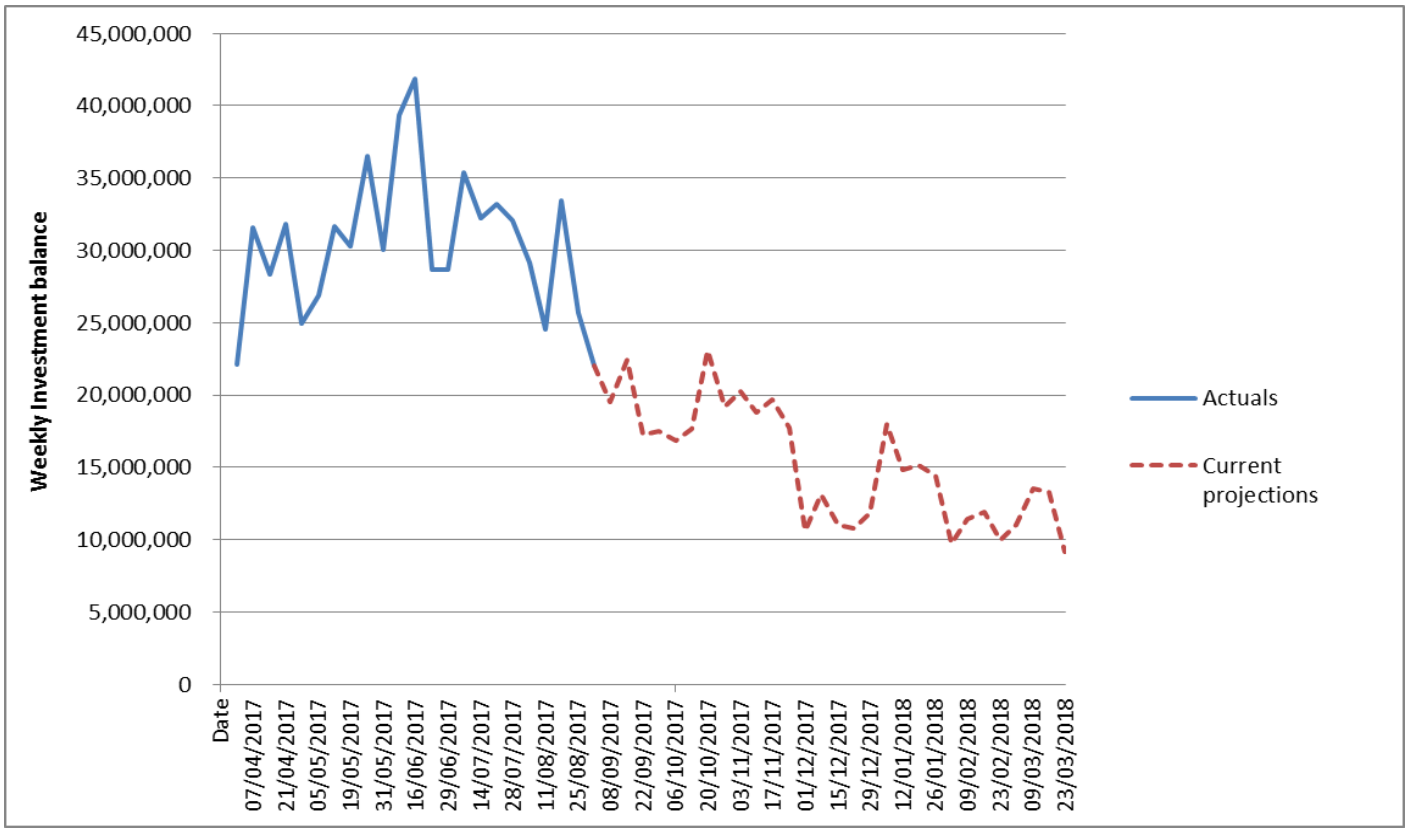
VERSION:	**0.03**

CONTACT OFFICER:	Ron Turvey - Deputy Finance Manager extn 5303 Louise Mattinson - Director of Finance and IT extn 5600
DATE:	7 September 2017
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 27th February 2017

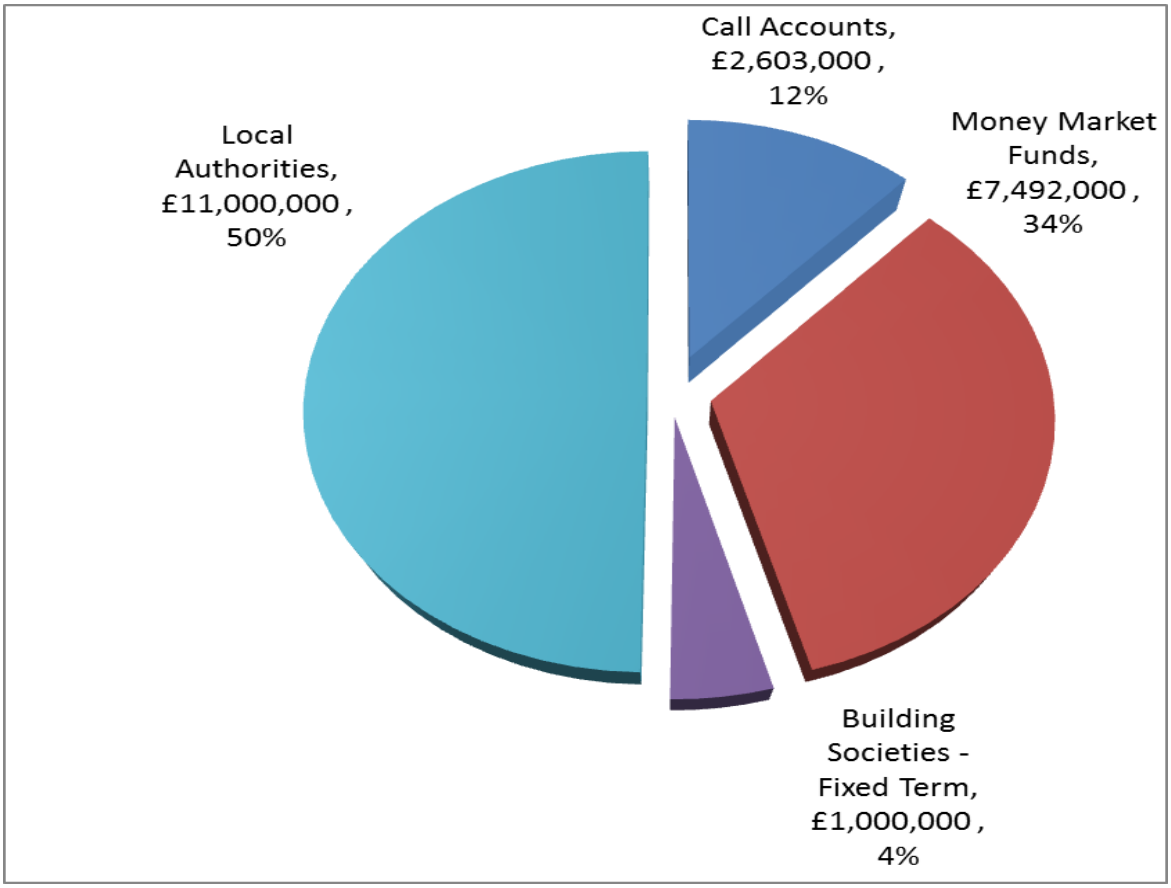
Weekly Investment balances

Appendix 1

2017/18



Investments at end of August 2017 **Appendix 2**



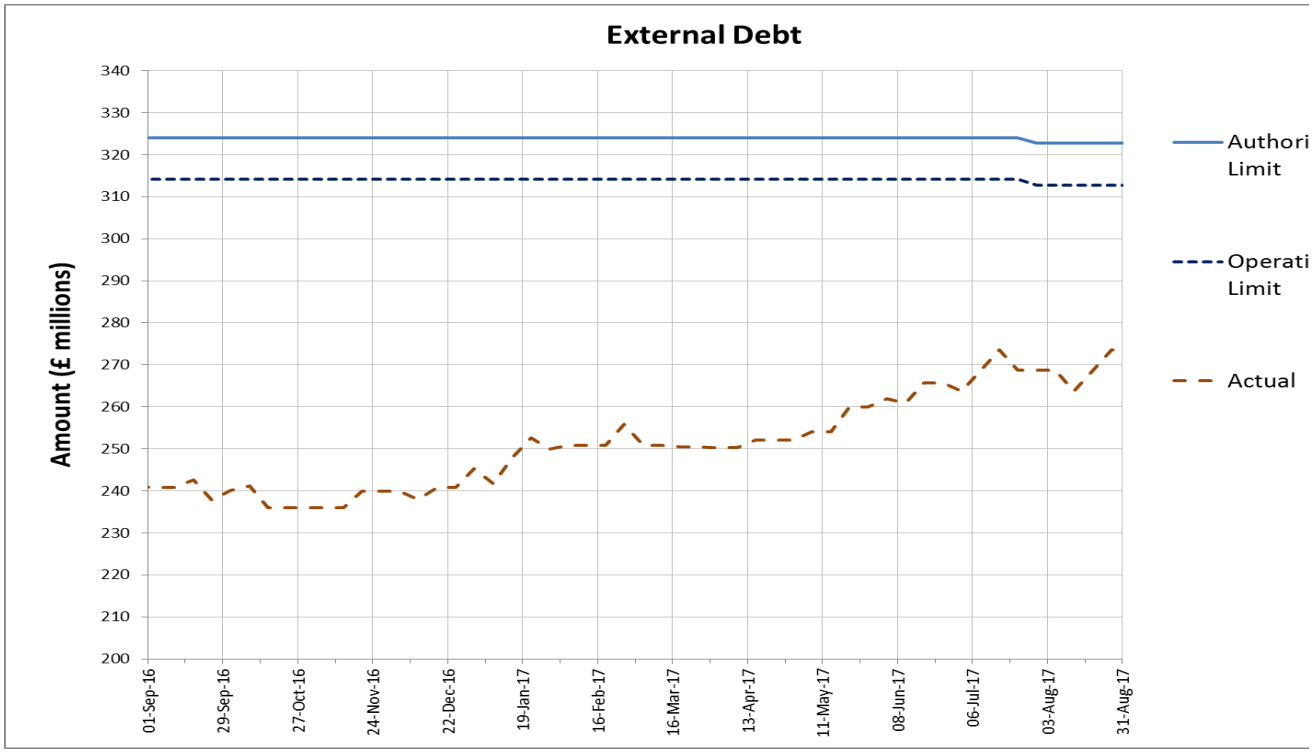
Performance against Treasury and Prudential Indicators 2017-18 (as approved by Council 27th February 2017)

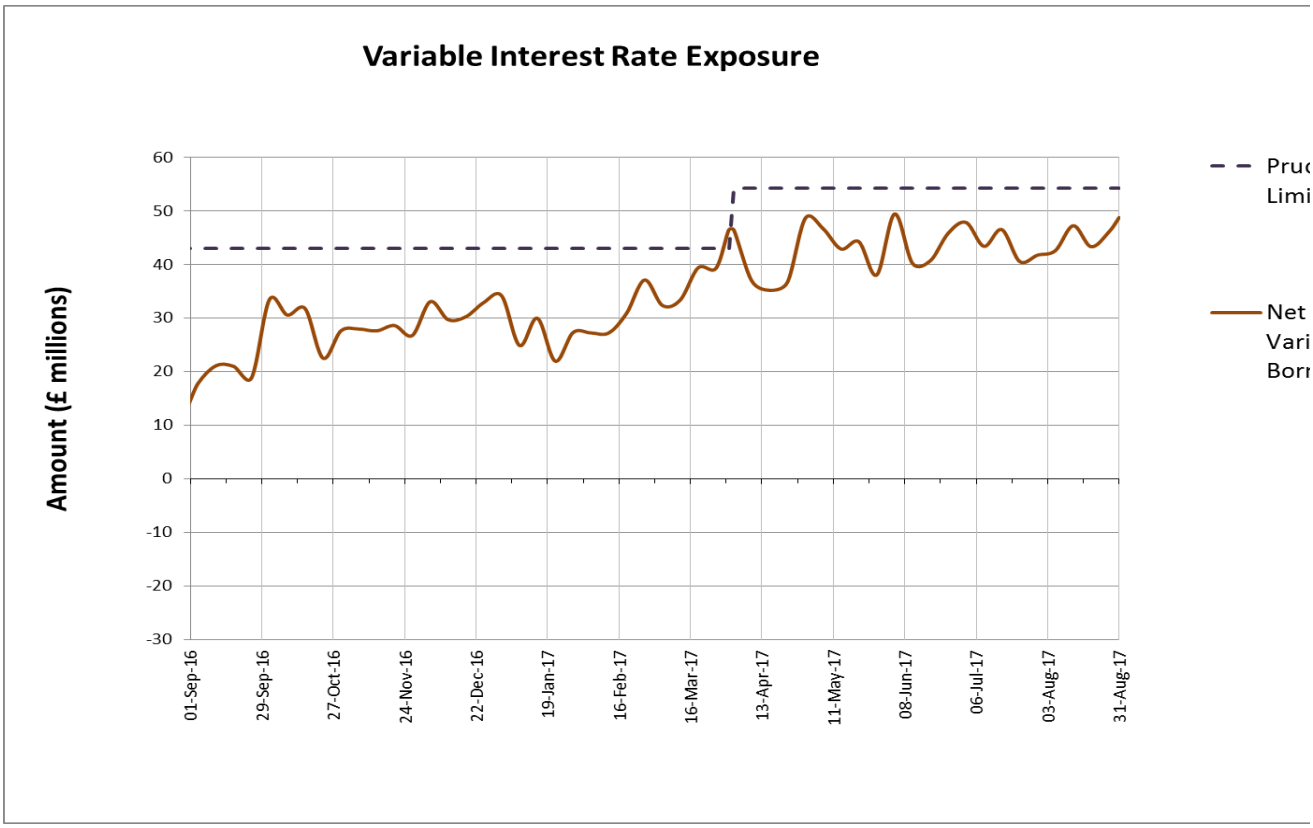
Appendix 3

		Indicator 2017/18	As approved Feb 17	Current Monitoring	Commentary
	1	Local Authority has adopted CIPFA Treasury Management Code of Practice	Latest edition of CIPFA TM Code of Practice adopted March 2012		
PRUDENTIAL INDICATORS	2	Estimated Capital Expenditure	£21.2 Million		
PRUDENTIAL INDICATORS	3	Estimated total Capital Financing Requirement at end of year	£307 Million (incl projections re LCC debt £16M and accumulated PFI / Lease debt £69.8M)		
PRUDENTIAL INDICATORS	4	Estimated incremental impact of capital investment decisions on Council Tax	£0 (Zero after revenue savings allowed for)		
PRUDENTIAL INDICATORS	5	Estimated ratio of financing costs to net revenue stream	14.73% (Main Programme Capital Spend)		
PRUDENTIAL INDICATORS	6	Outturn External Debt prudential Indicators	LCC Debt 16.0M PFI elements (no lease) 69.8M Remaining elements 227.0M **Operational Borrowing Limit 312.8M** **Authorised Borrowing Limit 322.8M**	**Borrowing to date £M** LCC Debt 15.8 PFI Elements 67.9 BwD 186.4 **Total 270.1**	LCC debt and BSF PFI debt witll both fall across the year, as debt payments are made
TREASURY	7	Variable Interest Rate Exposure	£54.2 Million	Exposure to date £48.8 M	Limit not breached during the year
TREASURY	8	Fixed Interest Rate Exposure	£220.2 Million	Exposure to date £115.6 M	Limit not breached during the year
TREASURY	9	Prudential limits for maturity structure of borrowing	**Lower Limit / Upper Limit / Period (Years)** 0 / 35% / <1 0 / 20% / 1-2 0 / 30% / 2-5 0 / 30% / 5-10 25% / 95% / >10	**Actual maturity structure to date** **Period (Years) / £M / %** <1 / 61.9 / 33.2 1-2 / 4.1 / 2.2 2-5 / 4.3 / 2.3 5-10 / 18.1 / 9.7 >10 / 98.0 / 52.6 **Total / 186.4 / 100.0**	< limit has been breached, as a result of short term borrowing levels

10	Total investments for longer than 364 days	£7 Million	**NO LONG TERM INVESTMENTS MADE**

Movements in Prudential Indicators - Total Debt and Variable Interest Exposure





Appendix 4

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GLOSSARY OF TERMS

Investment Rates

The interest rates for durations of less than a year are represented by LIBID (London Interbank Bid Rate), a reference rate measuring levels at which major banks are prepared to borrow from one another. This is a potential benchmark for the return on the Council's investments, though the rates actually available are constrained by the Council's investment criteria and largely short term investment horizon, designed to ensure cash is available when required.

Borrowing Rates

To indicate the potential costs of borrowing to fund the Council's capital programme, the reference point is Public Works Loans Board (PWLB) borrowing rates. The benchmark used is for "Certainty Rate" borrowing of "Maturity" Loans (loans of fixed lump sums, at fixed rates, over periods from 1 to 50 years).
The PWLB is the statutory body which lends to public bodies from Government resources – the Government has declared that it will be abolished at some point in the future, but that the facility for lending at good value will be continued - no date has been proposed for the change.

PWLB Loans - Fixed rate loans are repayable by one of three methods:
(a) **Maturity**: half-yearly payments of interest only, with a single repayment of principal at the end of the term.
(b) **Annuity**: fixed half-yearly payments to include principal and interest or
(c) **EIP (Equal Instalments of Principal)**: equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

Certainty Rates - a discount - currently 0.20% - is available on new PWLB borrowing to local authorities completing an information request on borrowing intentions to Central Government

Current PWLB rates have no impact so long as no new longer term borrowing is taken, as all the Council's existing long term debt is at fixed rates.

LOBO - LOBO stands for Lender Option, Borrower Option. It means that the lender can increase the interest rate, which gives the borrower the option to repay the loan in full without penalty fees. Public bodies used to be only able to borrow money through government Public Works Loan Board (PWLB) loans, however borrowing from banks in the form of LOBOs was permitted from the early 2000s. LOBOs were made available with low rates (cheaper than then available PWLB rates) so they appeared to be an attractive alternative.

LOBOs have provoked criticism because of high initial profits to the lender from day one, and high subsequent interest rates. It is difficult to exit LOBO loans early unless the lender is in agreement, so they are less flexible, and there is a risk that if/when they are "called", the borrower may find itself having to refinance debt at high rates.
This Council always limited the scale of LOBO borrowing taken, so that it formed part of an overall balanced debt portfolio, while bringing the advantage of initial lower rates.

PFI - The private finance initiative is a way of creating "public–private partnerships" (PPPs) by funding public infrastructure projects with private capital.

BSF - Building Schools for the Future (BSF) was the name given to Central Government's investment programme in secondary school buildings in England in the 2000s. In Blackburn with Darwen, the schools funded through this scheme are Witton Park High School, Blackburn Central High School and Pleckgate High School.

Prudential Indicators

Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions and to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the indicators also deal with treasury issues, in particular the absolute level of debt being taken on (through the Authorised and Operational Borrowing Limits).

It should be noted that a "breach" of a prudential indicator is not necessarily a problem for the Council. Some indicators are more crucial that others, particularly in terms of their impact. If we spend more on the capital programme in total, that is not necessarily a problem if it has no adverse revenue consequences, for instance. Similarly, if we breach the indicator relating to variable interest rate exposure, this can just point to the balance of different types of debt taken up (between at fixed or variable interest rates) being significantly different from that anticipated when the indictor was set.

On the other hand, the Council's ability to borrow from the PWLB is constrained by needing to remain within the Authorised Borrowing Limit the Council has set for itself. If it became necessary to re-shape the Council's overall capital spending and borrowing strategy to the extent that the original Authorised Borrowing Limits were at risk of being breached, it would be necessary to obtain authority from full Council to change the borrowing limits.

Money market fund – type of fund investing in a diversified portfolio of short term, high quality debt instruments - provides benefit of pooled investment - assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns - such funds “ring-fenced”, kept fully separate from the remainder of funds managed by the investment house running the fund.

Council only uses highly rated funds - **policy** is to limit to those with long-term credit ratings no lower than A-, but current **practice** is to only use AAA rated with daily access (like instant access bank accounts)

TO:	Audit and Governance Committee
FROM:	Director of Finance and IT
DATE:	19th September 2017

TITLE OF BRIEFING PAPER: Treasury Management Outturn 2016-17 and Mid-Year Review for 2017-18

1. PURPOSE

1.1 To allow the Audit and Governance Committee, as the body responsible for scrutiny of the Treasury Management function, to consider the key issues to be covered in the Treasury Management Outturn Report for 2016-17 and Mid-Year Strategy Review for 2017-18, ahead of consideration by full Council. A draft of that report is attached as Appendix A to this report.

2. RECOMMENDATIONS

2.1 Members are recommended to consider the key issues to be covered in the Treasury Management Outturn Report for 2016-17 and Mid-Year Strategy Review for 2017-18, before it is submitted to the Council for approval on 5th October 2017.

3. BACKGROUND

3.1 The Council has previously adopted CIPFA's *Code of Practice on Treasury Management in the Public Services*.

3.2 Under the Council's Financial Regulations, the Council both sets a Treasury Management Strategy in advance of the financial year, and receives a combined mid-year review of the current year and annual report in respect of the outcome of the previous year, after its close.

4. RATIONALE

4.1 The CIPFA *Code of Practice on Treasury Management in the Public Services* requires the Council to receive a report on the Treasury Management Outturn each year, **and** a Mid-Year Treasury Management Strategy Review - this Council combines these into one report. Audit and Governance Committee is the body responsible for scrutiny of the Treasury Management function.

5. KEY ISSUES

5.1 Context

Recent and current Treasury Management Strategies have been set at a time of considerable uncertainty in the financial markets. Furthermore, the Council is aware that further pressure will be applied to public finances over the next few years. Both of these issues heighten the importance of maintaining sound and prudent treasury practices.

A very low interest rate environment has prevailed over recent years, and it is likely that those relatively low rates will continue for some time to come.

5.2 The Council's Strategic Response

The Council's investment priorities remain security and liquidity, ahead of yield.

The low interest rate earned and charged on short term borrowing has allowed the Council to make interest savings arising from deferring long term borrowing - by covering capital programme borrowing needs initially from revenue cash balances and then by taking out short term borrowing. This has also allowed us to reduce credit risk (the risk of losing some or all of funds invested externally).

The Council's budget for borrowing costs reflects this strategy. It may, however, be necessary to take up more expensive medium/long tem borrowing if interest rates look likely to increase significantly. As the extent to which short term borrowing will continue to be judged financially advantageous is uncertain (depending on actual and projected interest rates), borrowing costs will remain a key issue for the Council's revenue budget monitoring.

5.3 Investment Security

The Council is aware of the limitations of credit ratings, and that they are relative, rather than absolute measures of credit risk. Nonetheless a key control for investment security remains the setting of limits with reference to credit ratings. These have remained tightly controlled over recent years and this stance will continue. We will continue to seek to place funds across a range of counterparties, as this is another aspect of managing credit risk.

Over and above the limits approved as part of the Treasury Management Strategy, the Council's Treasury Management Group will continue to review all the individual counterparties included on the operational Investment List.

5.4 Treasury Outturn 16/17

There are no major issues over the Treasury Outturn for 2016/17, with savings made on borrowing costs previously reported. The Council operated within the Approved Strategy and there were no significant issues regarding performance against the Indicators and Limits set for the year.

The high level of short term borrowing by the end of 2016/17 caused two of the Council's Treasury Indicators to "breach" –

(a) more than 30% fixed term debt was due to mature in less than a year

(b) the variable Interest Rate Exposure was over the £43M Limit

These breaches were warning flags, showing that the Council was taking more short term borrowing than it had anticipated. The Limits are designed to help the Council recognise and manage its risk appetite, not to act as a block on treasury practices.

5.5 Mid-Year Year Strategy Review

It is proposed that the Mid-Year Review of the Treasury Strategy for 2017/18 leaves the current Investment Limits unchanged. We will continue to actively manage risks in the light of challenging conditions in the financial markets. Minor changes will be proposed to the Treasury Indicators for the Maturity Structure of Borrowing, and for the Upper Limit on Variable Interest Rate Exposure, to allow for the increased level of short term borrowing being taken.

The Borrowing Strategy will also remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in long term interest rates.

5.6 Minimum Revenue Provision - MRP

The Council's MRP is the minimum amount which must be charged to revenue each year as a provision for the repayment of debt. The Council, within regulatory guidance, sets its own policy to ensure that the MRP it makes each year is prudent. The Council has the option to review this policy during the year, but, having done this in both 2015-16 and 2016-17, it is not anticipated that it will be necessary do this again this year.

6. FINANCIAL IMPLICATIONS

6.1 Any changes to interest costs will be reflected, along with any other implications of updated borrowing and investment forecasts, both in Corporate Budget Monitoring and in the Medium Term Financial Strategy.

7. LEGAL IMPLICATIONS

7.1 The review of the Treasury Management Strategy fulfils the Council's obligations under the guidance on local authority investments, issued by the Department for Communities and Local Government.

8. POLICY, RESOURCE & EQUALITY IMPLICATIONS

8.1 None.

9. CONSULTATIONS

9.1 The issues raised in this report were reviewed by Treasury Management Group.

Contact officer:	Ron Turvey, Deputy Finance Manager – Ext. 5303 Louise Mattinson, Director of Finance and IT – Ext. 5600
Date:	5th September 2017
Background papers:	Treasury Management Strategies for 2016-17 and 2017-18 approved at Council 29th Feb 2016 and 27th Feb 2017 respectively.

REPORT to :	Council Forum
LEAD OFFICER:	Director of Finance and IT
DATE:	5th October 2017

WARD/S AFFECTED: All

Treasury Management Mid-Year Strategy Review for 2017/18 and Annual Report 2016/17

1. PURPOSE

1.1.To update Members with regard to the Treasury Management position to date and proposed Strategy for the remainder of 2017/18, and to formally report the Treasury outturn for 2016/17, as previously reflected in reporting to Audit and Governance Committee, and in the 2016/17 Outturn Corporate Monitoring Report (13th July Executive Board).

2. RECOMMENDATIONS

2.1 The Council is recommended to

(a) note the Outturn position for 2016-17

(b) agree to the proposed changes to the Treasury Indicators for the Maturity Structure of Borrowing, and for the Upper Limit on Variable Interest Rate Exposure,

(c) agree to the continuation of the existing Treasury Management Strategy, and the remaining Treasury and Prudential Indicators for 2017/18, as set at Finance Council in February 2017.

3. BACKGROUND

3.1. In March 2012 the Council adopted CIPFA's 2011 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, and an updated Treasury Management Policy Statement.

3.2. In February 2017 the Council agreed a Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy for 2017/18.

3.3. The CIPFA Treasury Management Code requires the Council to approve a Treasury Management Strategy (including various Treasury Management indicators) before the start of each financial year, and to consider both the outturn after each year end, and the mid-year position in each current year. The Council has determined to combine the formal outturn report and mid-year

review into a single report.

4. KEY ISSUES AND RISKS

4.1 Treasury Priorities

The Council has operated within CIPFA and statutory guidance and requirements in respect of Treasury Management practice. The approved Treasury Management Policy Statement, together with the more detailed Treasury Management Practices and each year's Annual Strategy have all emphasised the importance of security and liquidity over yield.

5. 2016/17 OUTTURN

5.1 Original Strategy for 2016/17

5.1.1. The Strategy for 2016/17 was approved by Council on 29th February 2016. The main aspects of the strategy are outlined below :

- With short-term interest rates expected to continue to be lower than long-term rates it was acknowledged, for another year, that it may continue to be more cost effective not to borrow and instead reduce the level of investments.

- Long-term borrowing would be taken if it became apparent that there was a risk of significantly increased interest rates.

- Any balances over and above those required to maintain basic liquidity could be invested either in the medium term (out to a year) or the longer term (over a year), though it was recognised that long term investment was unlikely. Priority was given to security of funds and liquidity (accessibility) over yield (or return).

- The limits to investment by reference to amount, duration and credit rating were largely unchanged from those applying in previous years

5.2 Economic Review 2016/17

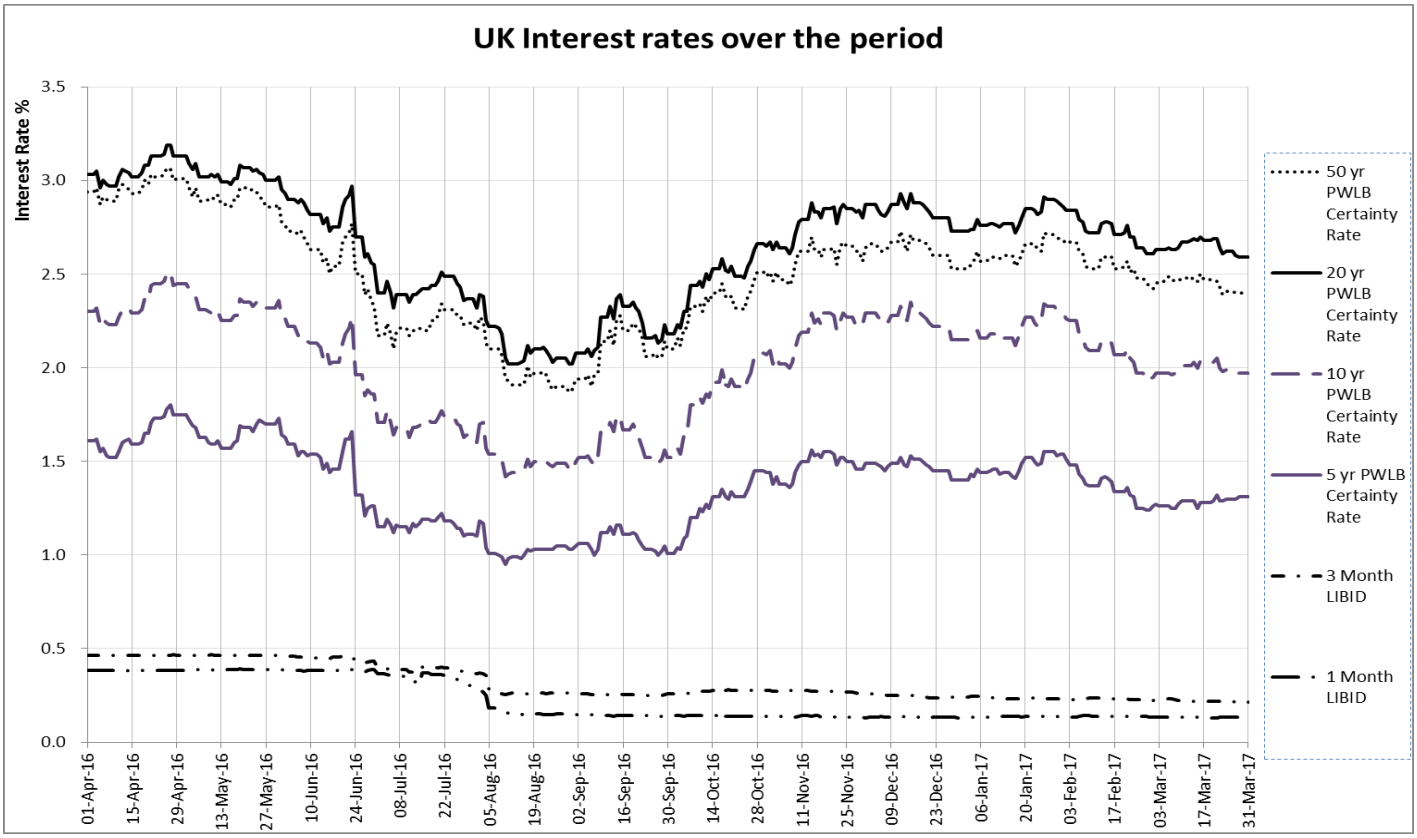
5.2.1. There was significant market volatility across the year, driven by both (a) a slowdown in the Chinese economy in early 2016, and (b) uncertainty over and reactions to political events, including the UK referendum on European Union membership, and United States and European elections. UK inflation had been subdued in the first half of 2016, but falling Sterling exchange rates and rising energy prices resulted in higher inflation, with CPI rising from 0.3% (April 2016) to 2.3 % (April 2016). There was also a decline in household, business and investor confidence. This prompted the Bank of England's Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases.

5.2.2. Though growth forecasts were downgraded, UK economic activity was fairly buoyant and unemployment rates fell further, to their lowest for more than a decade. The United States economy strengthened enough to prompt the Federal Reserve to increase rates in December 2016 and March 2017, but the European economy remained stagnant.

5.2.3. After the Referendum result, UK gilt yields - which determine the cost of government borrowing - fell sharply across the maturity spectrum, on the view that Bank Rate would remain

extremely low for the foreseeable future. They then went back up in the Autumn, before falling again, in the longer maturities, towards the year end.

The pattern of interest rates over the year is summarised in the chart below. Local government long term borrowing costs are set by the Public Works Loans Board (PWLB) - these directly mirror gilt yields. Nominal investment rates, measured through the London Inter-Bank Bid Rate (LIBID), are also shown - these declined slowly across the year, so short run investment returns and the cost of short term borrowing remained stable and low.



5.3 Treasury Management Performance 2016/17

5.3.1. By 31st March 2017, the Council had net borrowing of over £162M, arising from its revenue and capital income and expenditure, up £19M from the previous year.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below.

Balance Sheet Summary	31 March 2016 £M	2016/17 Movement £M	31 March 2017 £M
General Fund CFR	297.5	4.2	301.7
Less CFR re Debt Managed by LCC	-16.6	0.3	-16.3
Less CFR re PFI Debt	-70.1	0.1	-70.0
Loans/Borrowing CFR	**210.8**	**4.6**	**215.4**
Less Usable Reserves	-52.5	3.1	-49.4
Less Working Capital	-15.3	11.6	-3.7
Net Borrowing	**143.0**	**19.3**	**162.3**

The overall increase in **net borrowing** was due to new capital expenditure financed from borrowing

being greater than the financing applied (including MRP), and because of a decline in both usable reserves and in working capital.

The Council's new MRP Policy – under which, from 2016/17, for a number of years,

(a) the MRP charge to the accounts in respect of both PFI debt and debt managed by Lancashire County Council (LCC) will be less than the actual debt repaid, and
(b) the MRP charge to the accounts in respect of the Council's own capital spend financed from borrowing will be reduced,

has resulted in the Council's CFR being higher than it otherwise would have been, and will increase borrowing interest costs in the short run.

5.3.2. The following table summarises debt and investments at the start and end of the year:

	31 Mar 2016 Principal (£ M)	Rate / Return	Avg Life (Yrs)	31 Mar 2017 Principal (£ M)	Rate / Return	Avg Life (Yrs)
Fixed rate funding:						
PWLB	112.9	4.44%	22.7	105.3	4.18%	23.5
Market Debt (Long Term)	10.3	4.47%	38.7	10.3	4.47%	37.7
Market Debt (Short Term)	18.5	0.47%		57.0	0.40%	
	132.0			**172.6**		
Variable rate funding:						
PWLB	0.0			0.0		
Market	11.5	5.38%	18.0	11.5	5.38%	17.0
	13.5			**11.5**		
Loans taken by BwDBC	**153.2**	**4.52%**	**23.5**	**184.1**	**4.32%**	**24.0**

Debt from PFI arrangements	70.1		68.6	
Debt managed by Lancashire County Council	16.6	2.0%	16.0	2.1%
Total debt	**239.9**		**268.7**	

Total investments	**10.5**	**0.44%**	**22.2**	**0.31%**

No new long term borrowing was taken in 2016/17. The key changes to the Council's overall debt position across the year were:

a) Principal repayments on PWLB debt: - £1.6M on EIP (Equal Instalment of Principal) loans and a £6M Maturity loan repaid,
b) An increase in the level of short term borrowing, from £18.5M to £57M,
c) Repayments of part of the outstanding debt recognised on the balance sheet for Building Schools for the Future the debt, and for debt managed by LCC.

No debt rescheduling was undertaken, because the premiums payable on early repayment of PWLB debt made it uneconomic to do so

Short term loans were taken for a range of durations at various points across the year. Investments continued to be maintained to ensure sufficient resources to cover day to day cash flow needs, and would be higher when the timing of short term loans taken was not aligned to the immediate cash flow requirements of the Council.

Overall investment balances were significantly lower than they would have been if long term borrowing had been taken to cover the Council's CFR position, and the degree to which long term debt was less than CFR widened, from around £76M to around £88M.

The deliberate strategy of taking short term loans continued to reduce the interest earned on balances, but delivered large savings on borrowing costs.

5.3.3. In summary, the outturn position in respect of interest costs and income, and MRP charges, was as follows:

Outturn 2015/16 £'000		**Original Budget 2016/17** £'000	**Outturn 2016/17** £'000
6,668	Interest paid on borrowing	6,250	5,917
227	Interest paid on debt managed by LCC	349	289
6,358	PFI interest paid	6,456	6,460
(367)	Interest receipts	(176)	(214)
6,591	MRP on Council borrowing	7,744	4,985
1,441	MRP – PFI debt	1,543	130
694	MRP – debt managed by LCC	666	340

5.3.4. Interest paid on borrowing in 2016/17 was around £0.3M less than the Original Estimate, which had allowed for higher levels of borrowing. As already noted, there was no new long term borrowing taken in the year. Included in the interest paid was that on short term borrowing – the element relating to short term debt went up from around £56,000 to around £124,000.

PFI interest charges did not add to the "bottom line" faced by the Council Taxpayer, as grants covered their cost.

5.3.5. The average investment balance over the year was down, at £20M (£27M in 2015/16). Balances were lowest at the start of the year, along with a brief dips in the early summer (see **Appendix 1**). In turn, overall interest earned was down to £0.21M in 2016/17 (£0.37M in 2015/16). The most significant component was the dividend and interest income from the Council's BSF PFI holding, at £0.14M (against £0.13M in 2015/16). Interest earned on treasury cash investments fell, and the average rate of return was also down, at 0.3% (against 0.44% in 2015/16).

Interest rates have been low for several years, and the rates available from the limited range of institutions used by the Council remained low across 2016/17. Funds have continued to be invested for short periods, and sometimes with the government's Debt Management Office, to manage risk – this also contributed to the low returns.

5.3.6. The impact of the new MRP Policy can be seen in the significant MRP savings in 2016/17.

5.3.7. The position with regard to performance against Treasury/Prudential Indicators in 2016/17 is summarised in **Appendix 2**. There were no breaches of the Borrowing Limits. Outturn capital spend was £23M, down on the £29M forecast. The level of capital spend financed from borrowing

was also lower than forecast, and the outturn **total** Capital Financing Requirement of £302M (including LCC and PFI debt) was lower was lower than the original forecast.

The high level of short term borrowing by the end of 2016/17 caused two of the Council's Treasury Indicators to be "breached" in the last two weeks of the year -

(a) Proportion of Fixed Term Debt Maturing in Less Than a Year was over the 30% Limit
(b) Variable Interest Rate Exposure was over the £43M Limit

These breaches were warning flags, showing that the Council took more short term borrowing than it had anticipated. These Limits are designed to help the Council recognise and manage its risk appetite, not to act as a block on treasury practices, and their breach is not a significant issue.

5.4 Treasury Management Consultancy

5.4.1. The Council is contracted up to 31st March 2020 to receive treasury management support from Arlingclose Limited. They provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers.

5.4.2. Over the period, in providing support to the Council, Arlingclose have reviewed the Council's Treasury management procedures and activities. They have provided member training; ongoing officer training; support for and review of treasury decisions, reports and strategies; feedback on accounting for treasury activities; benchmarking with other authorities; guidance on borrowing and investment opportunities; forecasts of interest rates; and regular updates on credit ratings and other information on credit quality. The quality of the support provided has been of a high standard.

5.5 Counterparty Update

5.5.1. Various indicators of credit risk reacted negatively to the result of the EU Referendum. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests.

5.5.2. The Authority's treasury advisor, Arlingclose, monitored the changing circumstances across the year, issuing frequent guidance on investment risks. As part of its creditworthiness research and advice, it undertook regular analysis of relevant ratios to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

In general terms, the limited range of investments used, day to day, by the Council, meant that there were no significant implications for us. (One building society was removed from the Council's investment list in July due to deterioration in credit indicators.)

6. STRATEGY REVIEW 2017/18

6.1 Original Strategy for 2017/18

6.1.1. The Treasury Management Strategy for 2017/18 was approved by Council on 27th February 2017. The Council adopted the latest (2011) edition of the CIPFA Code of Practice on Treasury Management in March 2012.

6.1.2. The broad strategy set at the start of 2017/18 continued the approach set for 2016/17, recognising a widening, significant long-term under-borrowing against the Council's accumulated Capital Financing Requirement. There was uncertainty over the timing of still anticipated future increases in borrowing costs - interest rate increases, if not in 2016/17, were then still expected in the next few years. The availability of cheaper short-term cash still meant, however, that it was still likely that the Council would be able to limit long-term borrowing and generate net interest savings, as it had been doing for a number of years.

6.1.3. **The Original 2017/18 Investment Limits** – were set by reference to amount, duration and credit rating - distinguished between Unsecured Deposits, which would be subject to greater risk of credit loss, and Secured Deposits, where there was less risk. The limits set were largely comparable to those applying in previous years. The medium term intention was that, should investment balances grow, a greater diversity of investments would be used, again with a view to managing risk. **Appendix 3** summarises the investment criteria set for 2017/18.

6.2 Economic Review 2017/18

6.2.1. The UK Consumer Price Inflation (CPI) index grew appreciably early in the year, hitting a maximum in May of 2.9% - it is currently 2.6%. Though fuel prices dipped in the early part of the year, this was more than offset by the continuing impact of the fall in the value of sterling. Employment data remained buoyant, but though GDP continued to grow, the rate of increase appears to have fallen away.

An easing off of the rate of growth in the United States early in 2017 is still expected to be followed by further recovery in their growth rates, and there are recent signs of recovery in a number of European economies.

6.2.2. The UK political and economic uncertainty associated with "Brexit" was exacerbated by the outcome of the June general election. The reaction from the markets was muted, but business confidence now hinges on the progress made (or not) over Brexit negotiations, whether new trade treaties and arrangements are successfully concluded and whether or not the UK continues to remain part of the EU customs union post the country's exit from the EU.

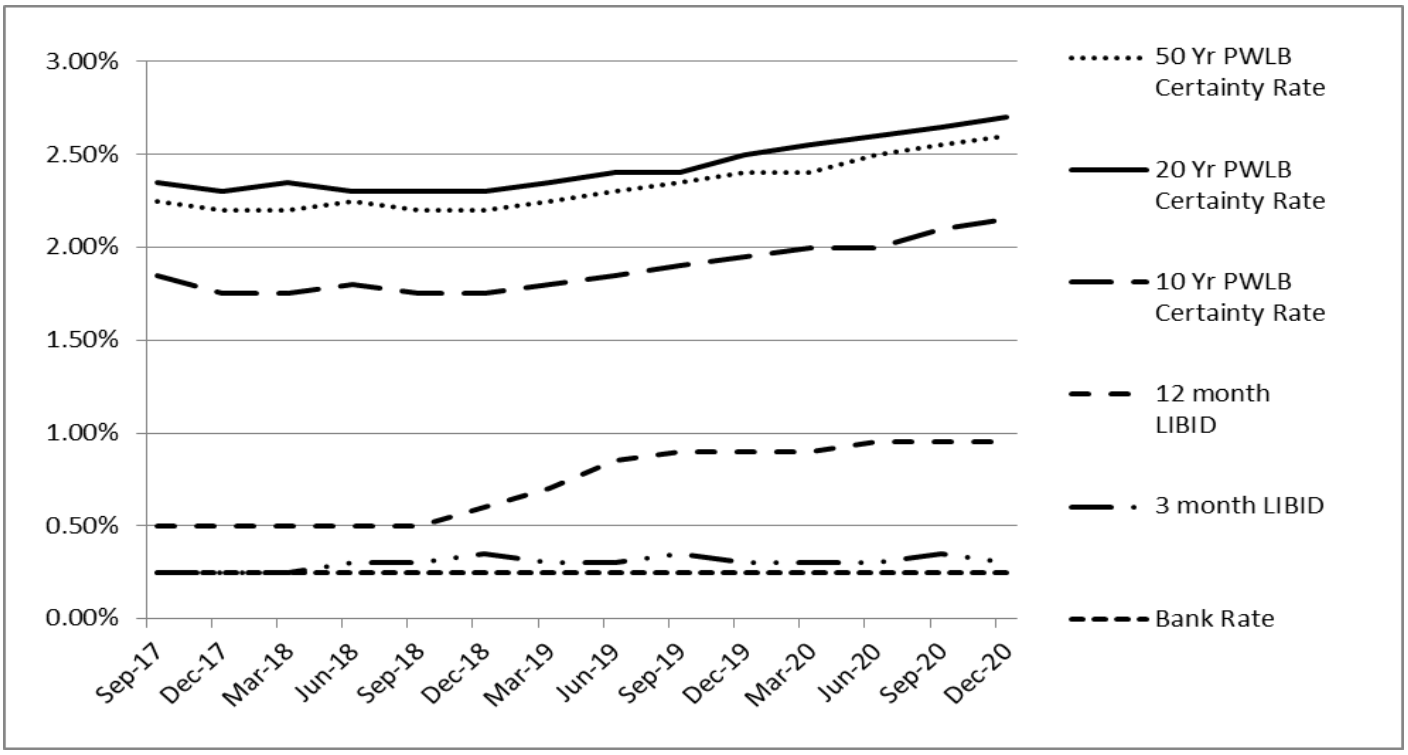
There has been no significant change in the Bank of England's monetary policy over the period. Notwithstanding the uncertainty, Arlingclose project that the Bank of England will "look through" what it expects to be a limited period of higher inflation and maintain its low-for-longer stance on policy interest rates for an extended period.

6.2.3. With regard to UK banks, credit default swap rates – an indicator of confidence in the banking sector - have continued a downward trend, reaching three year lows by the end of June. Bank share prices have not moved in any particular pattern.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. Arlingclose advised a

reduction in the maximum duration of deposits at Bank of Scotland, HSBC Bank and Lloyds Bank, as there is some uncertainty surrounding which banking entities councils will be dealing with once ring-fencing is implemented, or what the balance sheet structures of those banks will be. However, this Council's already limited range of investments was unaffected, as funds were already placed with banks and building societies on a limited time basis, or on an instant access basis.

6.2.4. Market expectations are now for a significant period of low interest rates. The **Council's current projections for interest rates**, based on the latest central forecast from our advisors Arlingclose is summarised in the chart below.



6.3 Treasury Performance to Date

6.3.1. Thus far, cash balances have typically averaged between £20M and £35M. These levels have been supported by short term borrowing (at low rates, averaging below 0.4%). No long term borrowing has yet been taken, while short term borrowing has fluctuated, but currently stands at around the same level as the start of the year.

Analysis of debt outstanding

	31st March 2017		31st August 2017	
	£M	£M	£M	£M
TEMPORARY DEBT				
Less than 3 months	8.0		0.0	
Greater than 3 months (full duration)	49.0		59.3	
		57.0		59.3
LONGER TERM DEBT				
PWLB	105.3		105.3	
Bonds	21.5		21.5	
Other Market Debt	0.3		0.3	
		127.1		127.1
Lancs County Council transferred debt		16.0		15.8

Recognition of Debt re PFI Arrangements	68.6	67.9
TOTAL DEBT	268.7	270.1
Less: Temporary Lending	-10.5	-22.1
	246.5	248.0

6.3.2. Investments have continued to be made with a limited range of banks, building societies and Money Market Funds, along with other local authorities, and the Government's Debt Management Office (DMO), earning interest at low levels (averaging below 0.25% in the first half of the year). It is likely that investment returns will remain low in the second half of the year.

6.3.3. Net savings of around £0.24M on the Original Estimate for interest and MRP costs have already been reported through corporate monitoring, reflecting lower borrowing last year, and this year to date. Investment returns remain low, and will fall below the Original Estimate. Further net interest savings are possible, depending upon the Council's cash flow.

It is likely that the Council will be able to continue to borrow short term monies at low rates for the rest of this year, and into future years.

6.4 Investment and Borrowing Strategy for the rest of the year

6.4.1. Though the Council's Investment Criteria allow investment in other organisations and structures, the priority given to maintaining liquidity, and limited opportunities for straightforward trading in Secured Deposits, have meant that simple, tried and tested, and short dated options have been used. Therefore, actual investments have continued to be made in - fixed term deposits and instant access accounts with banks and building societies; instant access Money Market Funds; and fixed term deposits with local authorities and the UK Government's DMO.

It is likely, particularly if material levels of borrowing are taken in future, that at least some investments will be made in a wider range of high grade instruments, such as Treasury bills. The Council's professional treasury advisers, Arlingclose, consider that such widening of the range of the Council's investment instruments is both appropriate and prudent.

6.4.2. It is proposed that the Borrowing Strategy also remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in long term interest rates. However, while it seemed possible that at least some of the Council's ongoing borrowing needs would be covered from longer term and/or PWLB borrowing, it now seems likely that the best value will lie in continuing to take a mix of short term borrowing, at rates of between 0.25% and 0.50%.

It is not currently anticipated that the Council will seek to take funds via the Municipal Bonds Agency (MBA) this year, and any decision to do so would be subject to a separate report to Executive Board. The Council, in 2014/15, supported the creation of the Local Capital Finance Company – which became the MBA - to become an agency which could act as an alternative source of borrowing for local authorities, to ultimately bring down borrowing costs. The MBA has yet to issue its first tranche of borrowing, but hopes to do so soon. It is also looking to position itself to support other forms of borrowing for local authorities.

6.5 Risk Management

6.5.1. The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its

surplus cash is therefore held as short-term investments with the UK Government, highly rated banks and pooled funds. In addition, the Council holds some investments that entail a slightly higher level of risk, including unrated building society deposits (where risks have been mitigated by limiting the amount and duration of exposure).

6.5.2. The Council's primary objective for the management of its debt is to ensure its long-term affordability. The largest part of its loans is from the Public Works Loan Board at long-term fixed rates of interest.

6.5.3. Another significant element of the Council's long term debt is £21.5M of loans from banks and other institutions. Of these, £16.5M worth are "lender's option, borrower's option" (LOBO) loans with initially fixed (and initially low) rates of interest. Under these instruments the Lender can, at certain times, exercise an option to increase the rate payable on the debt, and the Borrower has the choice then either to accept the proposed increase or repay the whole loan (which would mean, effectively, having to live with whatever the market conditions for interest rates were at that point).

This exposes the Council to some risk of rising long-term interest rates, but that is mitigated by the fact that £5M of this debt (forming a large part of the lowest interest rate elements) can only be "called" once in every five years. Recent estimates based on the current projected future interest rates, suggest LOBOs are unlikely to be called in the next 5 years (assuming no extraneous influences).

The other £5M loan is from Barclays Bank, which has chosen to cancel the embedded options in what was a LOBO loan, effectively converting it into a plain fixed rate loan. This has removed the uncertainty on both interest cost and maturity date. This waiver was done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.

6.5.4. A combination of short duration investments and long duration debt exposes the Council to the risk of falling investment income during periods of low interest rates. However, the risk of low investment returns is viewed as of lower priority compared to the benefits of optimising the security and liquidity of investments, and the savings made on borrowing costs. Also, though the Council has no long term investments, it is hedged against the investment return risk by its short term debt.

6.5.5. The rapidly expanding part of the debt portfolio - of around £60M in short term loans from other local authorities - does raise new issues. If the medium to long term cost of debt were to move upwards, it may be necessary to restructure the Council's debt quickly, and cope with an increased cost of borrowing. This issue is kept under review, with regular updates from Arlingclose.

6.6 Treasury and Prudential Indicators

6.6.1. The originally approved the Treasury and Prudential Limits and Indicators remain prudent and can largely remain unchanged. However it is proposed to vary two indicators to allow for the ongoing increase in the level of short-term borrowing being undertaken, as follows :

(a) Upper Limit on Variable Interest Rate Exposures	2017/18 £M	2018/19 £M	2019/20 £M
This was originally set as	*54.2*	*58.3*	*57.3*
and it is **now proposed** to be set as	**60.0**	**60.0**	**60.0**

(b) Maturity Structure of Borrowing – upper/lower limits on fixed rate borrowing were set at :

	Upper	Lower
Under 12 months	35%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and above	95%	25%

It is **now proposed** to increase the **Upper Limit Under 12 months** from 35% to 45%.

The proportion of fixed rate borrowing with a maturity of Under 12 months has already exceeded the 35% limit set at the start of the year on a number of occasions in this year. This is not a serious matter, as it is merely highlighting the high levels of short term borrowing being taken. Nonetheless it is recommended that the Limit be increased, as set out above.

The proposed increase in the Limits is effectively acknowledging that the Council is prepared to live with the risks of an increase in borrowing costs while looking to keep those costs at a minimum.

6.7 Minimum Revenue Provision (MRP) Policy

6.7.1. The Council's MRP (Minimum Revenue Provision) is the minimum amount which must be charged to revenue each year as a provision for the repayment of debt. The Council, within regulatory guidance, sets its own policy to ensure that the MRP it makes each year is prudent. The charge includes elements relating to "historic debt", acquired before the Prudential Borrowing regime, together with elements relating to more recent "Prudential Borrowing debt".

6.7.2. In setting the 2017/18 MRP Policy, the Council reflected policy changes made in 2016/17, which generated significant savings. No further changes to MRP Policy are now recommended.

7. FINANCIAL IMPLICATIONS

The financial implications arising from the 2016/17 Treasury Outturn and latest position for 2017/18 have been incorporated into Corporate Budget Monitoring Reports.

8. LEGAL IMPLICATIONS

8.1. Under the Local Government Act 2003, local authorities determine locally their levels of capital investment and associated borrowing. The Prudential Code has been developed to support local authorities in taking these decisions, and the Council is required by Regulation to have regard to the Code when carrying out its duties under Part 1 of the Local Government Act 2003.

8.2. The Department for Communities and Local Government issued Guidance on Local Government Investments, under the Local Government Act 2003, effective from 1st April 2010. Authorities must manage their investments within an approved strategy, setting out what categories of investment they will use and how they will assess and manage the risk of loss of investments.

9. POLICY IMPLICATIONS, RESOURCE IMPLICATIONS, CONSULTATIONS

None

10. STATEMENT OF COMPLIANCE
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

VERSION:	**0.02**

CONTACT OFFICER:	Ron Turvey - Deputy Finance Manager extn 5303 Louise Mattinson - Director of Finance and IT extn 5600
DATE:	11th September 2017
BACKGROUND PAPER:	Treasury Management strategies for 2016/17 and 2017/18 approved at Council 29th February 2016 and 27th February 2017 respectively.

Investment Criteria for 2017/18

Appendix 3

Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in the table immediately below, subject to the cash and time limits shown, AND to any other investment limits also set out in successive paragraphs below.

Approved Investment Counterparties	Specified Investments		Non-specified Investments		
	Cash limit	Time limit	Cash limit	Time Limit > I year	Time Limit 1 year +
Banks and Building Societies – Secured Deposits					
long-term credit ratings no lower than AA (or equivalent)	£5M each	364 days	£5M each	-	6 years
long-term credit ratings no lower than AA- (or equivalent)	£4M each	364 days	£4M each	-	4 years
long-term credit ratings no lower than A- (or equivalent)	£3M each	364 days	£3M each	-	2 years
long-term credit ratings no lower than BBB+ (or equivalent)	-	-	£3M each	6 months	-
long-term credit ratings of BBB or BBB- (or equivalent)	-	-	£3M each	3 months	-
Banks and Building Societies – Unsecured Deposits					
long-term credit ratings no lower than AA (or equivalent)	£5M each	9 months	£3M each	-	3 years
long-term credit ratings no lower than AA- (or equivalent)	£4M each	6 months	£2M each	-	2 years
long-term credit ratings no lower than A- (or equivalent)	£3M each	4 months	£2M each	-	18 months
long-term credit ratings no lower than BBB+ (or equivalent)	-	-	£2M each	2 months	-
long-term credit ratings no lower than BBB (or equivalent)	-	-	£2M each	next day	-
The Council's **current account banker** - provided long term credit rating no lower than BBB- (or equivalent)	-	-	£3M	next day	-
Corporates or **Registered Providers** with long-term credit ratings no lower than A- (or equivalent)	£3M each	4 months	£2M each	-	18 months
Unrated institutions, such as some building societies	-	-	£1M each	4 months	-
Company Shares where no direct service benefit arising, for the prudent management of its financial affairs - e.g. LCFC	-	-	£100,000	n/a	
Pooled funds (incl. money market funds)					
long-term credit ratings no lower than A- (or equivalent)	£5M each	n/a	-	-	-
unrated or long-term credit ratings under A- (or equivalent)	-	-	£4M each	-	n/a
UK Government	no limit	364 days	no limit	-	50 years
Other Government with long-term-credit ratings no lower than A- (or equivalent)	£5M each	364 days	£3M each	-	5 years
UK Local Authorities* (irrespective of credit rating)	£5M each	364 days	£3M each	-	5 years
* as defined in the Local Government Act 2003					

Maximum to any one organisation (other than the UK Government) £5 million

Limits also set for Foreign Countries (max £5M per country and minimum sovereign credit ratings of AA+ or better)

Specified and Non-Specified Investments

Specified Investments offer high security and liquidity, and are:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government, local authority, parish council or community council, OR
    - a body or investment scheme of "high credit quality".

"High Credit Quality" defined by each authority. This Council defines "high credit quality" organisations as those having a credit rating of A- or higher, if either domiciled in the UK ***or*** in foreign country with a sovereign rating of AA+ or higher.

For money market funds/pooled funds "high credit quality" is defined as having a credit rating of A- or higher.

Non-specified Investments

- any investment not meeting the definition of a Specified Investment

Only be made in the following categories

(a) shorter term investments in bodies and schemes with low or no credit ratings –

(b) long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement (in higher rated counterparties)

(c) treasury investments defined as capital expenditure by legislation, such as company shares, where there is a potential for a beneficial treasury impact.

Overall limits also apply on Non-specified Investments, as shown the table below.

Non-Specified Investments - Overall Limits	**Cash limit**
Total long-term investments	£7 M
Total investments without credit ratings or rated below A- Building Societies or Banks (subject to additional overview) Council's current account bank (in addition to the above) Pooled Funds and Money Market Funds	 £7 M £3 M £15 M
Total non-specified investments	£30 M

Secured and Unsecured Deposits - and Current Account Bankers

Unsecured Deposits: include accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Secured Deposits: include covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Investment in Other Government, Corporate and Registered Providers

Other Government covers loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency.

Equivalent investments with the UK Government may be made in unlimited amounts.

Corporates covers loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Registered Providers covers loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Performance against Treasury and Prudential Indicators 2016-17 (as approved by Council 29th February 2016)

Appendix 2

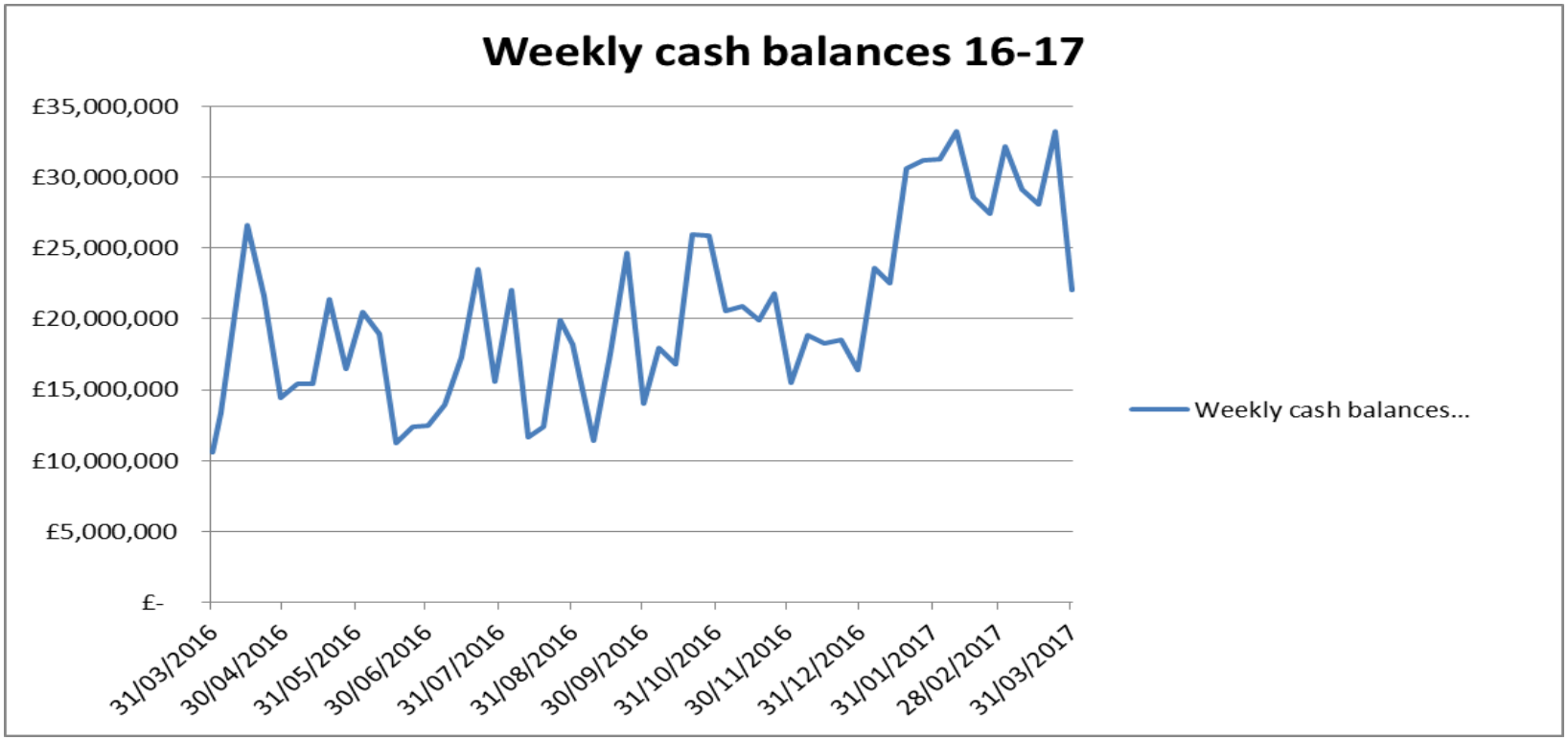
		Indicator 2016/17	As approved Feb 16	Outturn 16/17	Commentary
	1	Local Authority has adopted CIPFA Treasury Management Code of Practice	Latest edition of CIPFA TM Code of Practice adopted March 2012		
PRUDENTIAL INDICATORS	2	Estimated Capital Expenditure	£29.1 Million	£22.9 M	cap spend financed from borrowing originally estimated at £15.5M - outturn was £11.6M
PRUDENTIAL INDICATORS	3	Estimated total Capital Financing Requirement at end of year	£308 Million (incl projections re LCC debt £16M and accumulated PFI / Lease debt £68.6M)	£302 Million (incl LCC debt £16.3M and accumulated PFI / Lease debt £70M)	lower MRP payments have left outturn CFR for LCC debt and PFI debt higher than originally projected
PRUDENTIAL INDICATORS	4	Estimated incremental impact of capital investment decisions on Council Tax	£0 (Zero after revenue savings allowed for)		
PRUDENTIAL INDICATORS	5	Estimated ratio of financing costs to net revenue stream	17.74% (Main Programme Capital Spend)		
PRUDENTIAL INDICATORS	6	Outturn External Debt prudential Indicators	LCC Debt 16.0M PFI elements (no lease) 68.5M Remaining elements 229.6M **Operational Borrowing Limit 314.1M** **Authorised Borrowing Limit 324.1M**	**Borrowing to date £M** LCC Debt 16.0 PFI Elements 68.6 BwD 184.1 **Total 268.7**	LCC debt & BSF PFI debt both fell across the year, as debt repaid - note that LCC Debt and PFI Debt no longer match their respective CFRs (which formerly they did)
TREASURY	7	Variable Interest Rate Exposure	£43 Million	Exposure to date £46.4M	Limit breached for the last two weeks of the year
TREASURY	8	Fixed Interest Rate Exposure	£223 Million	Exposure to date £115.6 M	Limit not breached during the year
TREASURY	9	Prudential limits for maturity structure of borrowing	**Lower Limit / Upper Limit / Period (Years)** 0 / 30% / <1 0 / 15% / 1-2 0 / 30% / 2-5 0 / 30% / 5-10 25% / 95% / >10	**Actual maturity structure to date** **Period (Years) / £M / %** <1 / 57.0 / 31.0 1-2 / 2.6 / 1.4 2-5 / 7.2 / 3.9 5-10 / 15.8 / 8.6 >10 / 101.5 / 55.1	< limit breached for the last two weeks of March, as a result of high levels of short term borrowing

			Total	**184.1**	**100.0**
10	Total investments for longer than 364 days	£7 Million	**NO LONG TERM INVESTMENTS MADE**		

appended to draft report referred to Audit & Governance Cttee

Appendix 1

Weekly Investment balances



TO:	Audit & Governance Committee
FROM:	Head of Audit & Assurance
DATE:	19 September 2017

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 31 August 2017**

1. PURPOSE

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 June to 31 August 2017.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 31 August 2017 against the Audit & Assurance Plan, which was approved by Committee on 11 April 2017.

3. BACKGROUND

The internal audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Head of Internal Audit to communicate any significant governance, risk management and control issues identified to the Audit Committee during the year. This Progress and Outcomes report complies with the requirements of the PSIAS by communicating any significant issues that have been identified during the year.

4. RATIONALE

The Council is required under the Accounts and Audit (England) Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal audit standards (PSIASs).

The work undertaken throughout the year is intended to ensure that:

- at the year end, an objective and independent opinion can be provided that meets the statutory governance requirements;
- it also demonstrates the effectiveness of the internal audit function; and
- throughout the year, support is provided to Members, Directors and managers in their particular areas of responsibility.

5. KEY ISSUES

Outcomes achieved in the year thus far:

Counter Fraud Activity

National Fraud Initiative

A total of 8,837 data matches were received from the Cabinet Office as part of the 2017 National Fraud Initiative. Of these, 4,402 cases were highlighted as 'recommended matches'. These are cases which include several matching pieces of information from more than one data source, suggesting a greater degree of accuracy. The Cabinet Office suggests that these matches are prioritised for review. The results of work undertaken show that 2,435 data matches have been processed to date. A total of 435 fraud/errors have been found resulting in savings of £197,814. The table below illustrates main areas of activity and where savings have been identified.

Summary of Results

Area	No. of Frauds/Errors	Value (£)
Benefits (Housing/Council Tax Support)	24	£50,219
Council Tax Single Persons Discount	299	£79,394
Private Residential Care Homes	2	£10,778
Taxi Licences revoked	3*	N/A
Blue Badges/Residents Parking Permits	107	£57,423*
TOTAL	**435**	**£197,814**

*Taxi Licences revoked after it was established the holders had no leave to remain/right to work in the UK.

*The value attached to the Blue Badges/Residents Parking Permits has been determined by the Cabinet Office which considers the average loss of fraud/error to be £536.66 per case.

A further 85 data matches are currently being reviewed. A number of these involve data matches relating to suspected fraudulent Council Tax Support (CTS) claims. The initial work on these matches has been carried out by resources within the Audit & Assurance team before being passed to Revenues & Benefits staff to complete the investigations. Additional resources will be required to investigate the remaining CTS data matches. This will need to be identified in consultation with the Revenues & Benefits Team.

Audit & Assurance staff have carried out an investigation into an alleged fraud following a complaint made under the Council's Whistleblowing Policy. The findings have been reported to management for consideration regarding further action. We are also continuing to liaise with the Police regarding a case of suspected overpayments in respect a social care client responsible for the direct commissioning of their own care service.

We have worked with Finance colleagues in the period to investigate a cash discrepancy at one location and the suspected misuse of a Council Procurement card, which had been blocked by the bank. No fraudulent activity by Council staff was identified in either case.

In addition, work is on-going to review and update the corporate fraud risk

register in liaison with the key contacts identified. Audit & Assurance are also working with colleagues from the Community Safety Team, Procurement and other relevant teams to consider the findings and recommendations in the Home Office Organised Crime Procurement Pilots Report and any relevant actions identified.

Internal Audit

A summary of the 10 audits completed and finalised since the last report to Committee are detailed below.

Risk, Control & Governance Reviews	**Assurance Opinion**		**Recommendations**
	Environment	**Compliance**	**Agreed**
Budgetary Control	Substantial	Substantial	0
Sundry Debtors	Adequate	Adequate	8
Cyber Risk	Adequate	Adequate	5
Growth Strategy Programme	Limited	Adequate	14
Payroll Core System	Adequate	Adequate	11
Private Care Homes Contract Payments	Limited	Limited	13
St Peters RC Primary School	Limited	Adequate	25
St Thomas CE Primary School	Limited	Adequate	22
Prosecution Process	Adequate	Adequate	12
Consultancy Reviews	**Improvement Level**		**Improvements**
HR & Payroll VFM	Adequate processes in place		5

We have provided a brief commentary on the four audit assignments where we have provided a limited or no assurance opinion.

Growth Strategy Programme: The audit assessed the arrangements relating to the Council's growth programme to ensure that it can be delivered to realise its objectives within the agreed timescales/costs and generate the expected level of income/receipts. The review covered the growth model in place during 2016/17. It considered income realisation, cost identification and timeliness of delivery. The final report provided a **limited assurance** opinion for the control environment in place and **adequate assurance** regarding compliance with the controls identified. In particular, the following weaknesses were identified at the time of the audit:

- The model did not include details of revised rateable values for businesses following the 2017 national revaluation exercise or revised income estimates to reflect Government changes to the New Homes Bonus scheme effective from 2017/18;
- Testing showed unrealistic delivery dates for some cases reviewed;
- The model used an arbitrary 'realistic' assessment to determine the probability of successful delivery of each growth project;

- The model did not consider changes to eligibility for small business rate relief from 2017/18 which can affect projected income and was not reviewed against the Business Rates register to ensure that growth projections took account of changes to occupancy or rateable value;
- The model did not make an allowance for the proportion of properties which attract a discount, exemption or Council Tax Support; and
- The model did not include details of any growth income derived from planning applications or Section 106 agreements.

Private Care Homes Contract Payments: The objective of the review was to ensure that the Council only pays for safe and uninterrupted care provided for service users approved for placement in private nursing and residential homes. The final report provided **limited assurance opinions** for both the control environment in place and compliance with these controls at the time of the review. The key factors for this decision were:

- Testing of care assessments found that some details were not correctly recorded on Mosaic;
- Testing found that annual reviews of care placements were not regularly carried out. Care Act statutory guidance sets out an expectation that care packages will be reviewed no later than every 12 months;
- Payments made to Care Homes were not accurate and reconciliations of under and over payments had not taken place; and
- Signed contracts were not in place with Care Homes.

St Peter's RC Primary School: The final report provided a **limited assurance opinion** for the control environment in place within the schools relating to the areas covered by the visit. We made 25 recommendations to strengthen arrangements in place across seven of the eleven areas covered during the visit. This included 6 'must' level recommendations. There were issues found within the following areas:

- Management Structure (6 recommendations);
- Policies/Transparencies agenda (2 recommendations);
- Budgetary Control (1 recommendation);
- Expenditure Control and Cheque Control (7 recommendations);
- Income Collection and Billing (1 recommendation);
- Asset Control (5 recommendations); and
- Information Security and Access Rights (3 recommendations).

St Thomas's CE Primary School: The final report provided a limited assurance opinion for the control environment in place in respect of the areas covered by the audit review. We made 22 recommendations to strengthen arrangements in place across seven of the eleven areas covered during the visit. This included four 'must' level recommendations. There were issues found within the following areas:

- Management Structure (3 recommendations);
- Policies/Transparencies agenda (3 recommendations);
- Budgetary Control (1 recommendation);
- Expenditure and Cheque Control (6 recommendations);
- Petty Cash (2 recommendations);
- Bank Reconciliation (1 recommendation); and

- IT, Information Security and Access Rights (6 recommendations).

Current internal audit reviews
In addition to the above completed audits, the following reviews are ongoing:

- Adult Services Client Case Management System (Mosaic).
- SEND Inspection Regime.
- Project Management/Capital Schemes Management.
- NNDR/Business Rates.
- Council Tax.
- Housing Benefits
- Personalised Budget/Direct Payments.
- Adoptions/Fostering Recruitment and Payment.
- Blakey Moor Heritage Lottery Grant.
- Selective Licensing.
- Energy Grant.
- Bus Subsidy Grant.
- Resource Link System Access.
- Disaster Recovery.
- Petty Cash – Children's Services Administration.
- Severance Payments.
- Schools & Museums External Funding Governance.

Internal Audit Performance

The Departmental Business Plan includes seven targets to achieve our strategic aims. The defined targets and actual performance for the latest period and the previous period are as follows:

Performance Measure	**Target**	**Q1 2017/18**	**Q4 2017/18**
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	**83%**
2. Planned Audits Completed Within Budget	90%	**60%**	**83%**
3. Final Reports Issued Within Deadline	90%	90%	100%
4. Follow Ups Undertaken Within Deadline	90%	**87%**	93%
5. Recommendations Implemented	90%	95%	90**%**
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	99%

We have provided a brief commentary on the measures where performance (Q1, 2017/18) has fallen below the agreed target:

2. Planned Assignments Completed Within Budget
Four of the ten audits (30%) were completed over budget. This was due to

difficulties in obtaining the required information in respect of the Debtors (4 days) Payroll (2 days) and Budgetary Control (2 days) reviews and extra time required to complete St Thomas CE Primary School (3 days) due to the issues identified. In addition, extra support was required in order to complete the Debtors audit, which was delivered by the Audit Apprentice, in order to ensure that the work met the required standards.

4. Follow Ups Undertaken within Deadline

We have received responses to 13 of the 15 audits (87%) requiring follow up by 31 August. We did not receive responses to the Care Act follow-up (2 recommendations, 1 graded must), or from Newfield Special School (24 recommendations, 4 graded must) due to the school holiday closure.

Audit & Assurance will continue to seek responses from audit clients for the above reviews and provide a verbal update at the Committee meeting if received.

5. Recommendations Implemented

Of the follow up responses received we were able to identify that 139 (84%) of the 166 recommendations due for implementation on or before 31 August 2017 had been fully implemented and 18 (11%) partially implemented.

- Highways – 15 recommendations; nine fully and two partially implemented, three not yet done. No 'must' recommendations were outstanding.
- Sacred Heart Primary School – 28 recommendations; 23 fully and three partially implemented. Two not yet done. No 'must' were recommendations outstanding.
- Meadowhead Infants – 16 recommendations; 13 completed, one partial. Two not yet implemented. No 'must' recommendations were outstanding.
- St Anne's RC Primary School – 30 recommendations; 22 fully and six partially implemented. No 'must' recommendations were outstanding.

6. POLICY IMPLICATIONS

This delivery of the Plan leads to the Annual Internal Audit Opinion Report and this, in turn, contributes directly to the Annual Governance Statement.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising as a result of this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising as a result of this report.

9. RESOURCE IMPLICATIONS

There are no resource implications arising as a result of this report.

10. EQUALITY & HEALTH IMPLICATIONS

There are no equality or health implications arising as a result of this report.

11. CONSULTATIONS

Directors

Contact Officer:	Colin Ferguson, Head of Audit & Assurance– Ext: 5326
Date:	8 August 2017
Background Papers:	Audit & Assurance Plan 2017/18, approved by Audit Committee on 11 April 2017.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**19 September 2017**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2017/18 Quarter 1 Review

1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 April 2017 to 30 June 2017.

2. RECOMMENDATIONS

The Committee is asked to:

- Discuss, review and challenge the progress made on the Corporate Risk Register as at the end of Quarter 1 2017/18;
- Note the risk management activity that has occurred during the period; and
- Select a Corporate Risk for the Committee to undertake a review of its assessment, control and monitoring at its next meeting.

3. BACKGROUND

The Council recognises that risk management is not simply a compliance issue, but rather it is a process to help ensure the successful delivery of the corporate objectives. Effective risk management arrangements should be embedded in the Council's culture and decision making processes as well as being an inherent part of the operational and financial management arrangements operating within the Council. Risk management helps to demonstrate openness, integrity and accountability in all of the Council's activities.

4. RATIONALE

The Audit & Governance Committee terms of reference require it to review progress on risk management at least annually and to promote risk management throughout the Council. The Corporate Risk Management Strategy & Framework requires that the Audit & Governance Committee will receive regular reports setting out progress against corporate risk management action plans. This report satisfies both these requirements.

5. KEY ISSUES AND RISKS

The Corporate Risk Register currently contains a total of 15 risks, the same number as noted in the 2016/17 Annual Risk Management Report presented to this Committee on 13 June 2017. A summary of the risk details is attached at

Appendix 1 of this report. The report identifies any changes in the residual risk score from the previous quarter to enable changes to be tracked. The only change to note is the increase in the residual risk score relating to business continuity. This is as a result of the likelihood of this risk materialising increasing. This reflects the various IT outages which have affected the Council over the last 12 months and the number and nature of recent cyber related events which have impacted in organisations nationally.

Corporate Risk 14, that of a high profile serious/critical safeguarding incident/case occurring that is known to Council services, remains the top corporate risk, as noted at the year end in the 2016/17 Annual Report.

As part of the Council's Risk Management process we review and monitor the Corporate Risks on a regular basis to ensure that we have appropriate, properly assessed corporate risks identified going forward. The Corporate Risk and Resilience Forum (CRRF) carries out this role and the results are reported to Management Board. This includes a challenge of the sources, implications and mitigations of specific risks on a rolling basis.

The Road Risk Management Group continues to meet regularly to consider the risk management arrangements in place for the Council's motor fleet and drivers and staff use of private vehicles for Council business. The Group also reviews management reports to monitor trends in fleet driving behaviour and insurance claims to identify training needs. At the latest Group meeting in July it was noted that Handbooks for Council fleet drivers and staff who use their own vehicles for Council business have been finalised and were now available on the intranet. Reminders have also been circulated and published on the intranet regarding drivers medical declarations and managers' responsibilities for checking that all employees who drive for work have valid driving licenses and are driving safe properly insured vehicles.

We continue to use the risk management support available from Zurich Municipal as part of the current long term insurance agreement. Zurich Municipal colleagues are providing support to ITM&G staff as part of the Council's preparation for the implementation of the General Data Protection Regulation, which will apply from 25 May 2018. Plans are also underway for Zurich Municipal to deliver accident investigation and awareness training for Leisure managers and supervisors.

In addition, the internal risk management fund has been used to fund the procurement of dashboard cameras in the Council's street cleansing vehicles. This initiative will improve our ability to defend claims relating to the use of these vehicles and increase driver awareness of their driving habits.

6. POLICY IMPLICATIONS

There are no policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality or health implications arising from this report.

11. CONSULTATIONS

The Corporate Risk Register has been reviewed and updated by the Corporate Risk & Resilience Forum and agreed by Management Board.

Contact Officer:	Colin Ferguson Head of Audit & Assurance – Ext: 5326
Date:	8 September 2017
Background Papers:	2016/17 Annual Risk Management Report (including Quarter 4 Review) Corporate Risk Management Strategy 2015/2020

Summary Risk Register

Directorate:
Department: Corporate Risk Register
Service:
Quarter and Year: Quarter 1 - 2017/18 Date of last review: 31-Mar-17
Date: 30-Jun-17 Date of next review: 30-Sep-17

				Inherent			Residual			Target								Previous Residual			
Risk No.	Risk Description	Date Raised	Strength of Existing Controls	L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating	Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	L	I	Risk Rating	Change in Score
1	Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Governement Commission taking control of the authority's finances	26-Jan-15	Fair	5	5	HIGH	2	3	LOW	1	2	LOW	Louise Mattinson	Simon Ross, Zoe Evans	Open	12-Jan-17	2	3	LOW	-
2	Failure of the assets or failure to manage these in a proactive and co-ordinated way (Assets include Buildings, Infrastructure)	25-May-11	Fair	3	5	HIGH	2	4	MEDIUM	2	2	LOW	Denise Park	Ian Richardson, Lee Kinder, Stuart Scott	Open	03-Feb-17	2	4	MEDIUM	-
3	IT Infrastructure (Resilience) - OTH	20-Aug-13	Good	4	3	MEDIUM	3	3	MEDIUM	3	1	LOW	Louise Mattinson	Shane Agnew	Closed	15-Nov-16	3	3	MEDIUM	-
4	The Council is not able effectively influence and shape new partnership structures to respond to changes occurring in the public sector.	07-Feb-12	Good	3	3	MEDIUM	2	3	LOW	2	2	LOW	Executive Team	Alison Schmid / Heather Taylor / Andrea Sturgess	Open	14-Jul-17	2	3	LOW	-
5	There is a risk that governance and decision making arrangements fail	25-May-11	Good	2	4	MEDIUM	2	2	LOW	1	1	LOW	Harry Catherall	Denise Park, David Fairclough.	Open	05-Jul-17	2	2	LOW	-
6	Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget.	17-Oct-16	Good	4	4	HIGH	1	3	LOW	1	2	LOW	Management Board	David Fairclough	Open	19-Apr-17	1	3	LOW	-
7	Ensure that the Coucil delivers its statutory function Civil Contingencies by Emergency Preparedness, Planning, Response, Recovery and Business Continuity Promotion (to small & medium sized businesses) in order to protect the Community and enhance the resilience of the Council, mitigate reputational and financial damage. Corporate Objectives at risk - 1,2,5,6.	25-May-11	Good	4	5	HIGH	1	5	LOW	1	5	LOW	Harry Catherall	Sayyed Osman, Rachel Hutchinson, Sarah Riley	Open	26.7.17	1	5	LOW	-
7b	Ensure that the council delivers its statutory function of Civil Contingencies by ensuring the Council has Business Continuity Management arrangements in place,planning, training testing and validating and execising procedures and plans. This will protect the community, enhance the resilience of the Council and mitigate financial and reputational damage. Corporate Objectives 1,2,5,6 link	22.09.16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Harry Catherall	Sayyed Osman, Rachel Hutchinson, Sarah Riley	Open	26.7.17	1	4	LOW	Up
8	Failure to contribute effectively to economic growth within Blackburn with Darwen	25-May-11	Good	3	5	HIGH	3	4	MEDIUM	2	2	LOW	Denise Park	Brian Bailey	Closed	29-Nov-16	3	4	MEDIUM	-
9	Failure to improve health outcomes within Blackburn with Darwen could result in the communities' health and wellbeing position or conditions deteriorating.	25-May-11	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Dominic Harrison	Gifford Kerr	Open	07-Aug-17	2	4	MEDIUM	-
10	Due to the breakdown of community relations or a deterioration of community cohesipn, greater risk of hate crime, extremism, radicalisation or polarisation of communities.	07-Feb-12	Good	4	5	HIGH	2	3	LOW	1	3	LOW	Sayyed Osman	Imran Akuji/Mark Aspin	Open	05-Jun-17	2	3	LOW	-
11	Failure to improve the education and skills for our young people	20-Aug-13	Good	4	4	HIGH	3	3	MEDIUM	2	3	LOW	Linda Clegg	Jessica Byrne	Open	21-Mar-17	3	3	MEDIUM	-

12	The Council does not effectively capitalise on potential opportunities to improve housing quality or build more houses in the Borough to maximise the income available from the new homes bonus and increased council tax	20-Aug-13	Good	4	4	**HIGH**	**3**	**3**	**MEDIUM**	**2**	**2**	**LOW**	Brian Bailey	David Proctor	Closed	29-Nov-16	**3**	**3**	**MEDIUM**	-
13	Failure to prevent data loss and privacy incidents (Information Governance) leading to financial/Data loss, disruption or damage to the reputation of the Council	26-Sep-14	Good	5	4	**HIGH**	**4**	**2**	**MEDIUM**	**3**	**2**	**LOW**	Louise Mattinson	Shane Agnew, Sarah Slater	Open	29-Mar-17	**4**	**2**	**MEDIUM**	-
14	High profile serious/critical safeguarding incident/case that is known to Council services.	20-Aug-13	Good	4	5	**HIGH**	**3**	**5**	**HIGH**	**3**	**5**	**HIGH**	Paul Lee / Linda Clegg (DCS)	Paul Lee	Open	27-Jul-17	**3**	**5**	**HIGH**	-
15	Failure, at a corporate level, to comply with Health & Safety legislation and provide both a safe working environment for employees and the provision of a safe environment for service users.	19-Mar-15	Fair	4	4	**HIGH**	**2**	**3**	**LOW**	**2**	**3**	**LOW**	David Fairclough	Lorraine Nicholls	Open	15.6.17	**2**	**3**	**LOW**	-
16	Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services.	01-Dec-15	Good	5	5	**HIGH**	**2**	**3**	**LOW**	**2**	**2**	**LOW**	Denise Park	Louise Mattinson	Closed	12-Jan-16	**2**	**3**	**LOW**	-
17	Cyber Risk - Risk of financial/Data loss, disruption or damage to the reputation of an organisation from compromise of its IT systems.	15-Mar-16	Good	5	5	**HIGH**	**3**	**4**	**MEDIUM**	**2**	**4**	**MEDIUM**	Louise Mattinson	Shane Agnew	Open	27-Mar-17	**3**	**4**	**MEDIUM**	-
18	Insufficient budget for service delivery if MTFS income targets from the Growth Agenda are not met.	29-Nov-16	Good	4	4	**HIGH**	**3**	**4**	**MEDIUM**	**1**	**1**	**LOW**	Denise Park, Ian Richardson	Simon Jones	Open	01-Feb-17	**3**	**4**	**MEDIUM**	-