Public Document Pack

Audit & Governance Committee

Tuesday, 24th July, 2018
5.45 pm
Meeting Room A - Old Town Hall, Blackburn

AGENDA

1.	**Minutes of the meeting held on 10th April 2018**	
	Minutes April 2018	**3 - 6**
2.	**Declarations of Interest**	
	Declarations of Interest	**7**
3.	**External Audit:Findings Report 2017/18**	
	Audit Findings Report	**8 - 43**
4.	**Statement of Accounts 2017/18**	
	Approval of SOA 2017-18 **Statement 2017-18 Final**	**44 - 172**
5.	**Treasury Management Report - March to June 2018**	
	Treasury Mgmt Report to Audit and Governance Cttee March-June 2018 **Copy of Appendix 1 March to June 2018** **Copy of Appendix 2 March to June 2018** **Copy of Appendix 3 March to June 2018** **Copy of Appendix 4 March to June 2018**	**173 - 183**
6.	**Treasury Management Annual Report 2017/18**	
	Treasury Mgmt 2017-18_ **Copy of Appendix 1** **Copy of Appendix 2**	**184 - 193**
7.	**Audit & Assurance - Progress & Outcomes to June 2018**	
	Audit & Assurance - Progress and Outcomes to June 2018	**194 - 200**
8.	**Corporate Annual Report on Health, Safety & Wellbeing 2017/18**	

	Corporate Annual Report on Health, Safety & Wellbeing 201718	**201 - 206**
9.	**Annual Risk Management Report 2017/18**	
	Annual Risk Management Report 201718	**207 - 224**
10.	**Annual Counter Fraud Report 2017/18**	
	Counter Fraud Annual Report 2017.18 **Appendix A Counter Fraud Annual Report 2017-18**	**225 - 232**
11.	**Annual Internal Audit Opinion Report 2017/18**	
	Audit Assurance Annual Opinion Report 17.18 **Appendix A Audit Assurance Annual Opinion Report 2017.18**	**233 - 255**
12.	**Annual Governance Statement for 2017/18**	
	Annual Governance Statement 2017-18 DRAFT	**256 - 277**
13.	**Audit & Governance Committee Annual Report 2017/18**	
	Audit Governance Commitee Draft Annual Report **Appendix A Audit Committee Draft Annual Report 2017.18 May 2018**	**278 - 304**

Date Published: Tuesday 17th July 2018
Harry Catherall, Chief Executive
(Publishing date reflects revised national audit deadlines)

AUDIT COMMITTEE
Tuesday, 10th April 2018

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

ALSO PRESENT

Councillor Andy Kay	-	Executive Member Resources
John Farrar	–	External Auditor
Neil Krajewski	–	External Auditor
Louise Mattinson	–	Director of Finance and IT
Colin Ferguson	–	Head of Audit and Assurance
Phil Llewellyn	–	Governance and Democratic Manager

31. Welcome and Apologies

The Chair welcomed all present to the meeting. Apologies were received from Councillors Jim Casey and David Foster.

32. Minutes of the meeting held on 9th January 2018

The minutes of the meeting held on 9th January 2018 were agreed as a correct record.

33. Declarations of interest

There were no declarations of interest submitted.

34. External Audit – Audit Committee Progress Report and Update Year ended 31st March 2018

The Council's External Auditors reported on progress up to March 2018 and gave a Sector update.

Work had started on planning for the 2017/18 financial statements audit, with an interim audit commencing in February 2018.

The statutory deadline for the issue of the 2017/18 opinion had been brought forward by two months to 31st July 2018. The final accounts audit was due to begin in June 2018, with findings being reported by the earlier deadline of July 2018.

In terms of Value for Money, an initial risk assessment to determine the approach had been undertaken in December 2017 and a Value for Money Conclusion would be given by the deadline in July 2018.

RESOLVED- That the update be noted.

35. External Audit Plan Year Ending 31st March 2018

The External Audit Plan for the Year Ending March 2018 was submitted. the document provided an overview of the planned scope and timing of the statutory audit of the Council for those charged with governance.

The report set out the significant risks identified, as well as reasonably possible risks, and in particular the focus on Value for Money arrangements.

Reference was made to the fact that Neil Krajewski was attending his last meeting before taking up a new position at Fenland District Council. Neil would be replaced by Thilina De Zoysa who would be in attendance at the next meeting.

RESOLVED – That the report be noted.

36. External Audit – Grant Certification work for Year Ended 31st March 2018

Details of the Certification work undertaken by Grant Thornton were submitted to the Committee for the Year Ending 31st March 2018 in terms of the Housing Benefit subsidy claim.

As a result of the errors identified, the claim was qualified and the Council may be required to undertake further work or provide assurances on the errors identified.

Reference was made to a reduction in fee as a result of the reduction in the level of error in 2016/17 compared to the 2014/15 financial year, on which the indicative fee for 2016/17 had been based.

RESOLVED- That the report be noted.

37. Treasury Management Report – December 2017 to February 2018

The Director of Finance & IT provided the Committee a report on the Treasury Management Quarterly report covering the period December 2017 to February 2018.

Members were reminded that the Council formally adopted CIPFA's revised Code of Practice on Treasury Management in the Public Services when they approved the 2017/18 Treasury Management Strategy at Finance Council in February 2017 (and reviewed in October 2017). The CIPFA Code, Investment Guidance issued by the Department for Communities and Local Government (CLG) and the

Audit & Assurance review of Treasury Management activities, all Members recommend an enhanced role for elected Members in scrutinising the Treasury Management function of the Council.

The report summarised the interest rate environment for three months, 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:

1) Treasury Management position over the quarter from December 2017 to February 2018 be noted; and

2) That it be noted that as interest rates had started to move, it may be necessary to enter into longer term loans and as such, these may be at higher rates than those originally estimated for 2018/19.

38. Audit & Assurance–Progress & Outcomes to February 2018

The Head of Audit & Assurance submitted a report which updated the Committee on achievements and progress made by Audit & Assurance in the period from 1st December 2017 to 28th February 2018.

The report focused on a number of key areas in Audit & Assurance Plan, in particular Counter Fraud Activity and Internal Audit work and performance.

Members of the Committee discussed the report and the sought clarification on the National Fraud initiative in relation to the Council Tax Single Persons Discount and data matches, and were advised that this area would be looked at as a thematic review.

RESOLVED - That the Committee note the outcomes achieved to 28th February 2018 against the Audit & Assurance Plan, which was approved by Committee in April 2017.

39. Audit and Assurance Plan 2018/19

The Head of Audit & Assurance submitted a report which informed Members of the planned Audit & Assurance work for the forthcoming year.

RESOLVED – That the Committee:

- Approve the 2018/19 Plan (as set out in Appendices 1 and 2 of the report submitted);

- Notes that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and
- Notes that Plan changes will be reported during the year.

40. Risk Management – 2017/18 Quarter 3 Review

The Head of Audit and Assurance provided the Committee with a report which detailed the risk management activity that had taken place in the period from 1st October to 31st 2017 December 2017.

Members were reminded that the top corporate risk remained the same as in the previous quarter, Corporate Risk 14, a high profile serious/critical safeguarding incident occurring relating to an individual known to the Council.

RESOLVED – That the progress made on the Corporate Risk Register at the end of Quarter 3 2017/18 and risk management activity in the period be noted.

41. Response to the External Auditor's request for information on how the Audit & Governance Committee gains assurance from management

The Committee was asked to consider a response to a letter from the Council's external auditor asking how the Audit & Governance Committee gained assurance from management, over financial management and governance processes and arrangements.

A proposed response from the from the Committee was attached at Appendix 2.

RESOLVED – That the response attached at Appendix 2 of the report be approved.

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 Disclosable Pecuniary Interest or an Other Interest under paragraph 16.1 of the Code of Conduct, 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 Democratic Services Officer at the commencement of the meeting and declare such an interest at the appropriate point on the agenda.

MEETING: **AUDIT & GOVERNANCE COMMITTEE**

DATE: **24th July 2018**

AGENDA ITEM NO.:

DESCRIPTION (BRIEF):

NATURE OF INTEREST:

DISCLOSABLE PECUNIARY/OTHER (delete as appropriate)

SIGNED :

PRINT NAME:

(Paragraphs 8 to 17 of the Code of Conduct for Members of the Council refer)

Audit Findings

Year ending 31 March 2018

Blackburn with Darwen Borough Council

23 July 2018

Contents

Your key Grant Thornton team members are:

John Farrar
Associate Director
T: 0161 234 6384
E: john.farrar@uk.gt.com

Thilina De Zoysa
Manager
T: 0113 200 1589
E: Thilina.De.Zoysa@uk.gt.com

John Cangley
In charge auditor
T: 0141 223 0689
E: john.d.cangley@uk.gt.com

Section		Page
1.	Headlines	3
2.	Financial statements	4
3.	Value for money	15
4.	Independence and ethics	18

Appendices

A. Action plan

B. Follow up of prior year recommendations

C. Audit adjustments

D. Fees

E. Audit Opinion

Headlines

This table summarises the key issues arising from the statutory audit of Blackburn with Darwen Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Council's financial statements give a true and fair view of the Council's financial position and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during July. Our findings are summarised on pages 4 to 14. There are no adjustments to the financial statements that have impacted the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised five recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 24 July 2018. These outstanding items include: • receipt of signed management representation letter; and • review of the final set of financial statements. • Other minor outstanding queries from the management in relation to less significant account balances We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Blackburn with Darwen Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 17.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code. We expect to be able to certify the conclusion of the audit once we have completed our review of the Council's Whole of Government Accounts return (NAO deadline 31 August 2018). Further details are noted on page 14.

Page 10

Acknowledgements

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.

Summary

Overview of the scope of our audit

- This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management
- As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

- Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:
  - an evaluation of the Council's internal controls environment; and
  - substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion as detailed in Appendix E.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality determination summarised below remains the same as per our audit plan reported to the Accounts and Audit Committee on 20 March 2018.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	7,988,000	Considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	5,991,000	Assessed to be 75% of financial statement materiality.
Trivial matters	395,000	Assessed to be 5% of financial statement materiality.
Materiality for specific transactions, balances or disclosures		These items merit a lower materiality than financial statement level materiality due to being of particular interest to the public.
Senior officer remuneration	25,000	
Related party transactions	100,000	

Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process

- Medium Term Financial Strategy 2017-2020
- Revenue Budget performance 2017/18
- Approved Budget 2018/19
- The robustness of the Budget and recommended level of reserves
- Digital Strategy 2018-2020
- Assessment of going concern basis paper 2017/18
- Working Capital and Cash flow
- Risk management

Auditor commentary

A paper called "assessment of going concern basis" was prepared by management in April 2018. It covered various financial tools that are relevant for budget monitoring which included forecast income and expenditure. It included a going concern assessment of the Council covering all the documents highlighted under 'Management's assessment process' column.

- It concluded that the Council is a going concern for the foreseeable future
- It discussed the savings plans and overall financial health for the foreseeable future using the relevant reports
- We have also carried out further work as part of our Value for Money Conclusion in relation to sustainable resource deployment

Work performed

We performed detailed work on the MTFP and met with Director of Finance and Customer Services in relation to approved budgets (2018/19) and savings plans.

Auditor commentary

- Our work indicates that there are no material uncertainties in terms of the going concern assessment by the management and no further disclosures are considered necessary in the Financial Statements.

Concluding comments

Auditor commentary

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Customer Services use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable 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.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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 • the culture and ethical frameworks of local authorities, including Blackburn with Darwen Borough Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Blackburn with Darwen Borough Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries during the year, and identified and tested high risk journal entries for appropriateness and correct treatment • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work has not identified any issues regarding management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Commentary
③ **Valuation of land and buildings** The Council revalues its land and buildings using a five year rolling programme to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration	**Auditor commentary** In addressing the valuation risk, we have: • evaluated management's processes and assumptions for the calculation of the estimate, including consideration of the instructions issued to the external valuer and how the scope of the valuer's work has been determined. • assessed the competency, experience and objectivity of the external valuer. • met with the valuer to discuss the basis on which valuations have been carried out and confirmed this is consistent with our expectation based on the provisions of the CIPFA Code of Practice and relevant accounting standards • Identified the data provided to and/or obtained by the valuer to inform the valuation process and confirmed the appropriateness of the data used • tested revaluations provided during the year to confirm these are accurately reflected in the asset register and that the associated accounting entries have been posted to reflect movements in asset values • Inspected management's process for obtaining assurance in relation to those assets not subject to formal valuation during the year to confirm the process is sufficiently robust to mitigate the risk that the value of assets not revalued might be materially misstated (either at the level of individual assets or in aggregate). Our audit work has not identified any material errors. However a less significant error of land and buildings valuation overstatement and a misclassification of assets were identified, as detailed in Appendix C. These misstatements are immaterial to the results of the Council and its financial position at the year-end. We also identified areas that the Council could further improve its processes in relation to valuation and reporting of land and buildings. We have included these recommendations in Appendix A

Significant audit risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	**Auditor commentary** In addressing the pension fund net liability valuation risk, we have: • identified the controls put in place by management and the controls established by the Lancashire Pension Fund to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected. • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. On behalf of external audit suppliers to local government, the National Audit Office has commissioned an auditor's expert to undertake a review of the actuaries engaged by local government pension funds, including the Lancashire Pension Fund. We also considered the expert's findings and followed-up on any implications for our audit. • undertook procedures to confirm the reasonableness of the actuarial assumptions made, particularly if these are specific to Blackburn with Darwen Borough Council. • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary • assessed the advance payment made to the pension fund during the year including the accounting treatment and related disclosures around this payment. Our audit work has not identified any material issues in relation to valuation of pension fund net liability

Page 15

Significant audit risks

	Risks identified in our Audit Plan	Commentary
5	**Implementation of a new General Ledger system** The Council implemented a new General Ledger system, Civica from 1 April 2017. The Civica system is in use at many local authorities similar in size and scale to Blackburn with Darwen Borough Council. The General Ledger is at the heart of organisation's accounting process and directly associated with preparation of financial statements. Local Authority accounting transactions can be complex and are typically significant in volume. For instance, there were over 1.3 million transactions recorded in the Council's ledger in the previous year. Interfaces operate between the Council's ledger and a number of subsidiary systems used by the Council. These subsidiary systems process a range of transactions, most notably payroll, housing benefits, council tax and business rates. Accuracy and completeness of data migration from an old to a new system is paramount for transparent financial reporting. There is a inherent risk that things could go wrong in data migration due to human and technological errors in such data transfers. We identified the implementation of a new General Ledger system as a risk requiring special audit consideration.	**Auditor commentary** In addressing the implementation of the new General Ledger system risk, we have: • discussed with management and understood the processes and controls in place to ensure successful migration of data relevant to the production of the financial statements from the old ledger to the new Civica financial ledger system as at 1 April 2017; • evaluated the general IT controls around such transfers through our IT specialists; and • examined and agreed the accuracy of the opening balances as at 1 April 2017 to confirm these have been completely and accurately brought forward to the new Civica ledger system Our audit work has not identified any issues relating to accuracy and completeness of data transfer from the old to new ledger system. We also agreed the opening balances as at 1 April 2017 to the audited closing balances as at 31 March 2017.

Page 16

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary

6 Operating expenses

Non-pay expenditure on other goods and services represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non-pay expenditure as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of processes and key controls over the transaction cycle including undertaking walkthrough of the key controls to assess the whether those controls were in line with our documentation
- tested the year end reconciliation of the accounts payable system to the general ledger
- assessed the accrual process established by management
- tested a sample of year end accruals and creditor balances to confirm these accurately reflect year end liabilities
- tested a sample of payments made in April 2018 to confirm the associated invoices have been accounted for in the correct financial year

Our audit work has not identified any material issues in relation to this area.

7 Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- confirmed our understanding of the Council's processes and the associated controls in relation to employee remuneration costs
- tested the year end reconciliation of the payroll system to the general ledger
- performed substantive analytical procedures to ensure the accuracy and completeness of employee remuneration costs

Our audit work has not identified any material issues in relation to this area.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of when cash is received. Where income has been recognised but cash has not been received a 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. • Services, fees, charges and other amounts due are recorded as income when goods are sold or services delivered. • 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. • Government grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.	• 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 from the Council • The accounting policies are appropriately disclosed in the statement of accounting policies in the financial statements	● (green)

Page 18

Assessment

● Marginal accounting policy which could potentially be open to challenge by regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Key estimates and judgements include: • Uncertainty in future level of funding for local government and impairment of assets due to closure of services • Analysis of the lease with the Blackburn Market on the basis of non specialist nature of the space rented and the duration of the lease compared with economic life of the asset • Accounting for schools • Land and building valuations and depreciation upon useful lives of the assets • Private Finance initiative schemes • Pension fund valuations and settlements • Impairments of debtors • Provisions • Fair value of financial instruments	• The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). • They are also consistently applied year on year and none of these judgements and estimates are new to 2017/18. • Critical judgements, estimation uncertainty and accounting policies are appropriately disclosed in accounting policies note. • Our risk based audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. • We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.	● (green)

Page 19

Assessment

● Marginal accounting policy which could potentially be open to challenge by 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 incidents in the period relevant to our audit opinion and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or 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 and we have not identified any incidences from our audit work. To this extent we have met with the Council's Monitoring Officer and we sought assurances from the Audit Committee.
4	**Written representations**	A standard letter of representation has been requested from the Council.
5	**Confirmation requests from third parties**	We requested and received third party confirmations as relevant from third parties
6	**Disclosures**	Our review found no material omissions in the financial statements. Management agreed to make a number of additional disclosures in the accounts resulting from the audit as set out in Appendix C.
7	**Significant difficulties**	No difficulties were experienced in obtaining working papers or explanations for audit queries from the finance team.
8	**Audit evidence and explanations**	All information and explanations requested from management was provided

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. Management agreed to add further disclosure in the narrative report regarding treasury management to comply fully with the Code. We plan to issue an unqualified opinion in this respect – refer to Appendix D.
2	**Matters on which we report by exception**	We are required to report by exception in a number of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**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 we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. The deadline for the WGA consolidation audit is 31 August 2018 and we plan to complete our audit work and report by the deadline.
4	**Certification of the closure of the audit**	We do not expect to certify the completion of the 2017/18 audit of Blackburn with Darwen Borough Council in our auditor's report, as detailed in Appendix E as we do not plan to complete the Whole of Government Accounts audit until the 31 August 2018 deadline.

Page 21

Value for Money

Background to our VFM approach

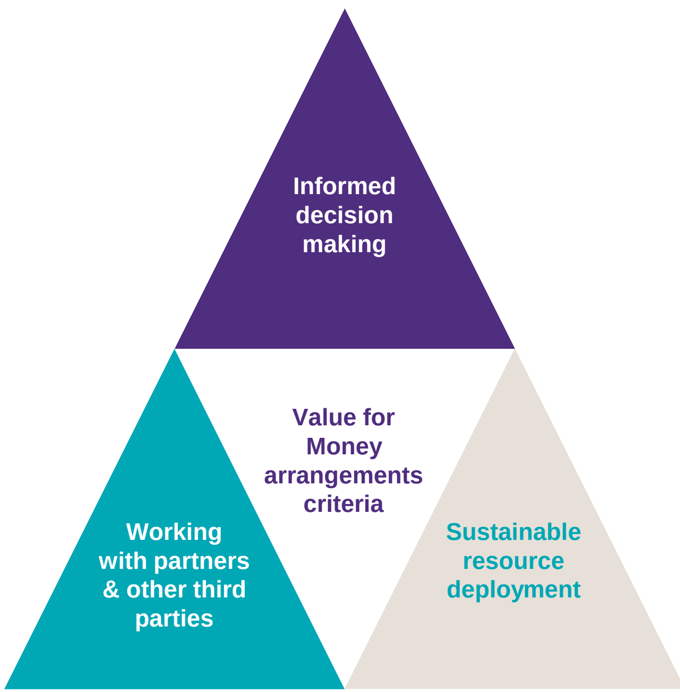
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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."

This is supported by three sub-criteria, as set out below:

Page 22



Risk assessment

We carried out an initial risk assessment in January 2018 and identified one significant risk in respect of sustainable resource development using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan in March 2018.

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.

In relation to Blackburn with Darwen Borough Council, we did not identify any arrangements that are not operating effectively and therefore such reporting in our VFM conclusion is not required.

Our work done in respect of the significant risk identified and conclusions reached are reported at page 16 and 17.

Value for Money

Our work

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's success in recent past on containing expenditure within budget estimates
- Achievement of 2017/18 out-turn
- Medium Term Financial Strategy (MTFP) and the robustness of that plan
- Assumptions and challenges to the MTFP
- Assessment of the progress made by the Council in realising the targets set in its savings plan
- Consideration of contingency planning

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 17.

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 E.

Recommendations

We discussed our findings arising from our work with management and have not identified any recommendations. However we have discussed the importance of the savings plans and longer term unsustainability of utilising earmarked reserves on a continuing basis. Management is fully aware of this situation and is working on monitoring and achievement of future savings plans to minimise the usage of such reserves.

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

1

The Council has a strong record of containing expenditure within budget estimates. However, in common with many local authorities, the Council is experiencing increasing demand for adult and children's services, and rising costs. This could increase the financial pressures faced by other services within the Council. Existing savings programme may be insufficient as the cost of delivering statutory services continues to rise.

The Council is currently updating its Medium Term Financial Strategy to cover the period to 2020/21. We need to evaluate the Council's arrangements to accurately forecast future net expenditure given the expected overspends in children's services and adult social care in 2017/18 and the progress made by the Council to identify and implement the savings plans required to bridge any financial gaps identified

Our work was focused around :

1) Detailed review of updated Medium Term Financial Strategy (MTFS) including an evaluation of the realism of the assumptions underpinning the Council's projections of anticipated future expenditure over the forecast period.

2) Assessment of the progress made by the Council in realising the targets set in its savings programmes.

3) Consideration of contingency planning implemented by management and elected members to address the risk of shortfalls or slippage against the agreed savings targets

Findings

- The Finance Council obtained approval of the Budget strategy and proposals for the revenue budget 2018/19 together with a MTFS (2018/19 – 20/21) in February 2018. Whilst a balanced budget has been set with the use of reserves for 2018/19 with a net expenditure of £131,478 million, 2019/20 and 2020/21 budgets have funding gaps of £4.9m and £13.2m respectively without the implementation of the savings programmes currently under review.
- The Council is planning to achieve savings through thematic reviews across specific areas including digital change, alternative service delivery models, income, commercialisation and traded services. In relation to Council Tax income, it is reviewing the processes and policies in respect of claims for single person discount and charges for empty homes. Whilst these areas of changes have been identified and agreed, the business cases and programmes to underpin each are currently in development and not finalised.
- The actual net revenue expenditure as at 31st March 2018 was £133.850 million, compared to an original budget of £124.322 million. This is an increase of £9.5m. The Council achieved 2017/18 revenue budget mainly from increased funding of £3.59m from improved Better Care Fund, achievement of savings plans around £2.4m and utilising approximately £3.5m of reserves held for discretionary use by the Council.
- Total earmarked reserves stand at £13.107 million at 31st March 2018 comprising discretionary reserves for use by the Council of £11.017 million and reserves that are non-discretionary and specified for specific purposes of £2.090 million
- Contingency planning will be considered as part of current Budget Challenge work going on in terms of MTFS including 2018/19 savings plans

Conclusion

Auditor view

- The Council has a track record of managing expenditure within budget. However with increasing funding cuts from the central government and equally increasing service demands such as adult social care and children's services, the Council is facing significant challenges in balancing service pressures with available resources. This is no different to many local authorities in the country.
- Using reserves to fund the budget gap is not a sustainable position over the medium to longer term and the Council needs to continue its work to identify realistic savings plans and monitor the achievement of plans against actual performance on a regular basis.
- We understand, by October 2018 the Council will complete its thematic review and identify the savings plans, individual business cases and programmes to underpin each plan. These have to be realistic and clear ownership has to be taken by senior management to implement such plans.
- As part of the thematic review, the Council should also consider contingency planning if things do not go to plan, including delivery of the savings plans.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers, managers have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Reasonable assurance report in respect of Teachers' Pension Return	4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £102,839 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, 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.
Total	**4,300**		
Non-audit related			
Chief Finance Officer Insights and Place Analytics subscription	23,000	Self-Interest (because this is a subscription)	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 level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £23,000 in comparison to the total fee for the audit of £102,839 and in particular relative to Grant Thornton UK LLP's turnover overall. This is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Total	**27,300**		

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by Director of Finance and Customer Services.
None of the services provided are subject to contingent fees.

None of the services provided are subject to contingent fees.

Action plan

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

	Issue and risk	Recommendations
1	• The Council revalues its Land and Building assets on a five year rolling programme. The Code requires that revaluations shall be made with sufficient regularity to ensure that the carrying amount of the land and building does not differ materially from its current value at the end of the reporting period. The Council needs to consider each year whether there is a material difference between current value and carrying value for those assets not revalued at the balance sheet date. If a material difference exists further revaluations should be undertaken to address this. Where the Council determines that there is no material difference, the justification for this decision should be clearly evidenced. This is a time consuming task and may require valuer's expert knowledge. Our audit work this year identified that this exercise was not completed on a timely basis prior to the commencement of the audit.	• Carry out an annual exercise to ensure that there is no material difference between current value and carrying value of land and buidlings at the year end. Include this assessment, and any supporting documentation, in the working papers presented at the start of the audit. **Management response** • The Council will complete the valuation assessment earlier so that it is available at the commencement of the audit. We are also proposing to commission additional desk-top valuations for high value assets valued at Depreciated Replacement Cost (DRC) in order to strengthen the annual exercise to evidence the Balance Sheet values for assets not scheduled to be valued in year.
2	• The annual valuation exercise includes specific properties identified by the Council which are to be revalued in addition to those due for revaluation as part of the five year cycle. The Council focuses on properties which may have had significant capital works, demolitions or a change of use. There is little evidence that the Council or Valuer consider indicators of impairment which may lead to a fall in value of properties.	• As part of the annual impairment review consider the indicators of impairment which may suggest a fall in the current value of specific land and buildings. Management should keep a record of such reviews and discuss with the valuer and take appropriate actions on a timely basis. **Management response** • The Council does request that the Property Valuer considers whether any properties have been impaired during the year. We will endeavour to strengthen this process by raising the issue of impairment at the council' internal Asset Management Group meetings and by documenting fully any agreed actions in respect of the annual impairment review.

Page 27

Action plan (continued)

	Issue and risk	Recommendations
3	• During our audit work we identified that the financial statements have disclosed both the Expenditure and Funding Analysis (EFA) and the Segmental Analysis (formally disclosed as amounts reported for resource allocation decisions) disclosure notes. From Code guidance paragraph 3.4.2.91 (page 84) and guidance notes for practitioners I22 and I23 the EFA note replaced the segmental analysis note. Considering the length of this note and the time to prepare such a detail note we discussed this over disclosure with the management.	• We recommend that management regularly review the disclosure requirements in line with CIPFA/LASAAC code of practice on local authority accounting and ensure only the required disclosures are reported in the financial statements as relevant to Blackburn with Darwen BC. We believe this would particularly benefit management when working to tight closedown deadlines and accounts decluttering activities going forward. **Management response** • Management recognise the importance of keeping up to date with the disclosure requirements of the Code.
4	• As part of our Interim Audit we undertook a Walkthrough on Children's services foster care payments. Our work identified the following control areas which we discussed with the management in April 2018 for further strengthening. The walkthrough item selected identified a small underpayment to the payee; and • On the reconciliation of payments, we identified that the credits on the '*Control Sheet*' and '*Interface*' show as negative values, but for the FostFile and uploading to Civica they are converted to positive values, meaning that the two don't easily agree without the Finance Officer's manual reconciliations	• Finance Manager evidence the checks performed and signs off the Control Sheet/FostFile as checked, before payments are paid out; and • the Finance Officer provides a reconciliation on the FostFile so that it can easily be agreed back to the 'Control sheet' and 'Interface' to minimise under /over payments **Management response** • Over/under payments will unfortunately always occur due to the timing of information passing from Children's Services to Finance. Any discrepancies are then addressed and corrected on the next weekly / monthly payment run. • The recommendations made in this action plan were implemented immediately after being raised by external audit . A reconciliation is provided to the Finance Manager with each FostFile and the control sheet is now physically signed off as authorised rather than this just being done via email
5	• We found some evidence that salary costs were capitalised without a detailed analysis of individual time spent on specific capital projects. It is correct to capitalise salary costs if they can be directly attributed to the acquisition of, creation of or subsequent expenditure on items of property, plant and equipment. However, this should be supported by a breakdown of individual officers' time and costs in order to justify the capitalised costs	• Ensure that there is detailed support for any salary costs that are capitalised. **Management response** • The council will request that capital project lead officers provide detailed evidence to support any capital costs that are capitalised.

Follow up of prior year recommendations

We identified three issues in the audit of Blackburn with Darwen Borough Council's 2016/17 financial statements, which resulted in three recommendations being reported in our 2016/17 Audit findings report appendix A . Out of the 3 recommendations, two were completed at the time of 2016/17 Audit finding report in September and one was outstanding. We are pleased to report that management have implemented the remaining outstanding recommendation during 2017/18. See below for further details

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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.	• During the year the Deputy Finance Manager obtained a schedule of surplus properties from the Head of Property & Projects. Regular monitoring of the schedule was carried out via regular attendance at Asset Management Group. Valuation of surplus properties was discussed with the Property Valuer and valuations completed to support the Balance sheet figures for this category of PPE.

Assessment

✓ Action completed

X Not yet addressed

Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no adjusted misstatements that would impact the financial performance or position of the Council's financial statements for the year ended 31 March 2018.

Misclassification 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.

Misclassification/Disclosure omission	Detail	Adjusted?
Accounting policies	• Estimation uncertainty (page 81) - Impairment of debtors cross reference to note corrected to Note 22 from Note 24 • Estimation uncertainty (pages 80-82) - Added total gross carrying value of PPE and cross references to various • Heritage assets policy (page 89) expanded to cover acquisition, preservation and management.	**Yes**
Related parties – Note 33	• Comparative information and outstanding balances added. Order of note amended to flow better (pages 71-73)	**Yes**
Reserves – Note 30	• Usable reserves table - bottom line total of "Transfers out 2017/18" - corrected from 29,325 to 29,425. No impact to the balance sheet numbers.	**Yes**
Leases – Note 29	• Council as Lessee: Operating Lease • We noted inconsistencies in the future minimum lease payments (MLP) disclosure between 2016/17 and 2017/18. On investigation we identified disclosure errors in the 2016/17 disclosure. Future MLPs for a number of vehicles were incorrectly calculated and a large operating lease was excluded from the note in 2016/17. The net effect of the errors was that future minimum lease payments were understated by £5,113k (Not later than one year: £214k overstated; One to five years: £708k overstated; Later than 5 years: £6,035k understated).	**Yes**

Page 30

Audit Adjustments (continued)

Misclassification/Disclosure omission

	Detail	Adjusted?
Financial Instruments – Note 26	• Fair Value (FV) disclosure - expended the basis of the FV calculations by adding a title before the table on page 51 and expanding on the narrative after the table to explain where there are FVs and they are all level 2	**Yes**
Heritage assets – Note 16	• Added clarification there were no additions / disposals / valuation changes in during the year. Also linked some of the wording between the note 16 and the accounting policy note	**Yes**
Capital expenditure and financing – Note 14	• Capital commitments note added in to note 14 as it is a contractual obligation as part of the disclosure requirements	**Yes**
PPE – Note 13	• PPE valuations table (page 41) - Changed to year (2017/18, 2016/17) instead of 31 March date, as valuation certificates dated as at 1 April 2017, although valuations carried out throughout the year • Section added on Surplus assets - Fair value hierarchy (page 41) • Adjusting for depreciation of re-classified assets. Line for "Revaluation increases/(decreases) recognised in the Revaluation Reserve“ -Cross cast corrected from 346 to 386 (page 39) • Land and Buildings depreciation charge £(711k) Surplus Asset depreciation charge £711k. A line to be introduced for assets reclassified in the depreciation section. Land and Buildings assets reclassified £711k Surplus Asset assets reclassified £(711k). No impact to bottom line figures in note 13 (page 40) • Note 13 the section on the calculation of potential variance in Balance Sheet carrying values of PPE was expanded to make clear that the assessment took account of local factors	**Yes**
Trading operations – Note 11	• 2016/17 figures added - 2015/16 comparatives had been left in the 2016/17 column by error	**Yes**
Officers remuneration – Note 8	• Over £50k banding note - total of 2016/17 column has been corrected to 154	**Yes**
Narrative Report	• Two paragraphs added re Ofsted report outcome (page 16) • Introduction - Louise's title changed to Director of Finance & Customer Services (changed happened in June 2018) – page 3	**Yes**

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 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 £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	This relates to the valuation of Land at Witton Park High School which is an Academy School. Considering the lease between the Council and the Academy is over 100 years, there is no real existing use value of this land to the Council and therefore should be valued at nominal £1 on the balance sheet rather than £1 million.	Dr Loss on disposal of non current assets £1,000	Cr Land and Buildings £1,000 Cr Movement in Reserves Statement £1,000 Dr Capital Adjustment Account £1,000	• 1,000	Not adjusted as it is immaterial to the results of the Council and its financial position at the year-ended 31 March 2018.
2	Misclassification of Property Plant and Equipment assets categories within note 13 to the Statement of Accounts where it should have been reported under Surplus Assets category rather than under Land and Buildings. This disclosure adjustment is only within note 13.	Nil	Cr Land and Buildings (note 13) £500 Dr Surplus Asses (note 13) £500	• Nil	Not adjusted as it is immaterial to the results of the Council and its financial position at the year-ended 31 March 2018. Also no impact to the balance sheet. Just a classification in note 13, PPE
	Overall impact	£1,000	£Nil	£1,000	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services

Audit Fees	Proposed fee £	Final fee £
Council Audit	102,839	106,839
Grant Certification Certification of Housing Subsidy Return	15,413	TBC
Total audit fees (excluding VAT)	**£118,252**	**£TBC**

The final fee for the Council Audit was increased by 4,000 due to the enhanced audit report requirements that is new in 2017/18. This is due to Blackburn with Darwen BC being a Public Interest Entity (PIE). The Council has listed debt of approximately £250,000, listed on the London Stock Exchange. As reported in our Audit Plan in April 2018, an entity with listed debt is a 'PIE', which has enhanced audit reporting requirements under ISA (UK) 700. Summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016 and additional disclosures on PIE entities audit reports were set out in appendix A to our 2017/18 Audit Plan.

We have agreed this extra fee with Director of Finance and Customer Services.

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

Non-Audit Fees

Fees for other services	Fees £
Audit related services: Certification of Teacher's pension return	4,200
Non-Audit related services: Chief Finance Officer Insights and Place Analytics subscription	23,000
Total (excluding VAT)	27,200

Audit opinion (DRAFT ONLY)

Independent auditor's report to the members of Blackburn with Darwen Council

We anticipate to provide the Council with an unmodified audit report

Report on the Audit of the Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Blackburn with Darwen Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure Statement and all notes to the financial statements, including the significant accounting policies set out in the Accounting Policies notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Customer Services use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Audit opinion (DRAFT ONLY)

- the Director of Finance & Customer Services. has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

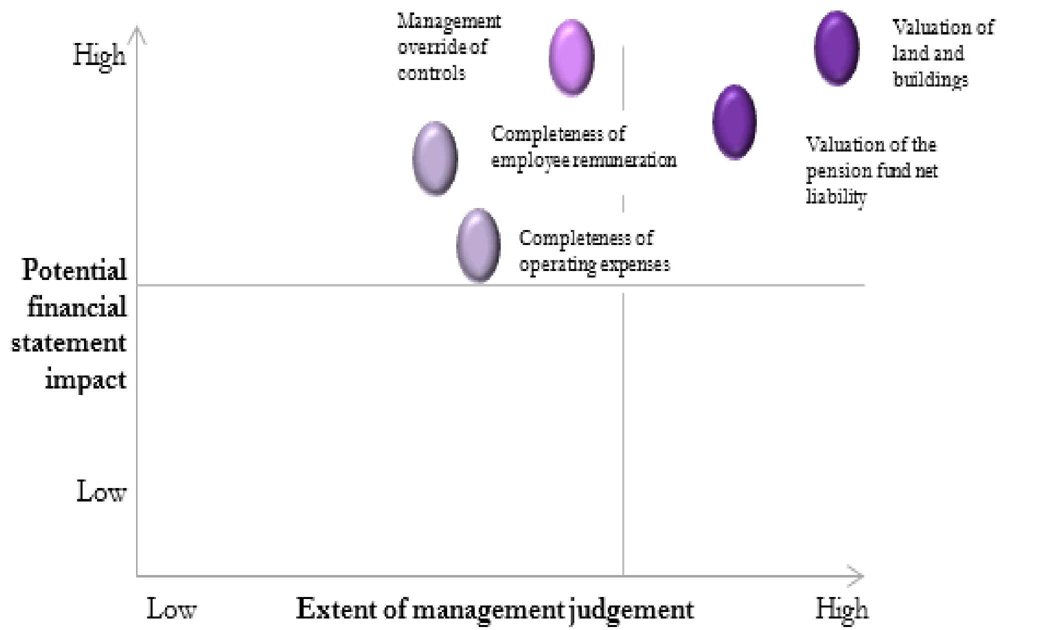
Page 35

Overview of our audit approach

- Overall materiality: £7,988,000, which represents 2% of the Authority's total gross cost of services expenditure;
- Key audit matters were identified as
  - Valuation of land and buildings
  - Valuation of the pension fund net liability
- We performed a full scope audit of the Authority

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audit opinion (DRAFT ONLY)

Key Audit Matter	How the matter was addressed in the audit
Risk 1 – Valuation of land and buildings The Authority revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from current value at the balance sheet date. This represents a significant estimate by management in the financial statements given the scale of the Authority's land and buildings portfolio and the inherent subjectivity in assessing asset lives and the value of remaining service potential. We therefore identified the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • updating our understanding of the processes put in place by management to ensure that the valuation of land and buildings remains materially accurate and evaluating the design of the associated controls; • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluating the competence, capabilities and objectivity of management's expert (the external valuer); • discussing with the valuer the basis on which valuations have been carried out; • challenging the information and assumptions used by the valuer to assess completeness; • evaluating 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 current value at year end; and • evaluating the Authority's consideration of any relevant indicators of asset impairment. The Authority's accounting policy covering the valuation of land and buildings is shown in the Accounting Policies section of the Statement of Accounts on pages 93-95 and related disclosures are included in note 13. **Key observations** We obtained sufficient, appropriate audit evidence to conclude that: • the basis of valuation was appropriate and the key assumptions and processes used by management in determining the estimate were reasonable; and

Audit opinion (DRAFT ONLY)

Key Audit Matter	How the matter was addressed in the audit
	• the valuation of land and buildings disclosed in the financial statements is reasonable.
Risk 2 – Valuation of the pension fund net liability The Authority reports a net pension scheme liability within its Balance Sheet, relating predominantly to its participation in the Local Government Pension Scheme, in accordance with International Accounting Standard (IAS) 19 'Employee Benefits'. Measurement of this pension fund liability represents a significant estimate in the financial statements, given its size and the complex calculations and professional judgements which underpin its calculation. We therefore identified the valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • gaining an understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability was not materially misstated and evaluating the design of the associated controls; • evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • evaluating the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; and • undertaking procedures to confirm the reasonableness of the actuarial assumptions made. The Authority's accounting policy on the valuation of the pension fund net liability is shown in the Accounting Policies section of the Statement of Accounts on pages 84-86 and related disclosures are included in note 31.

	Key observations We obtained sufficient assurance to conclude that: • the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and • the valuation of the Authority's pension fund net liability disclosed in the financial statements is reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be

Page 37

Audit opinion (DRAFT ONLY)

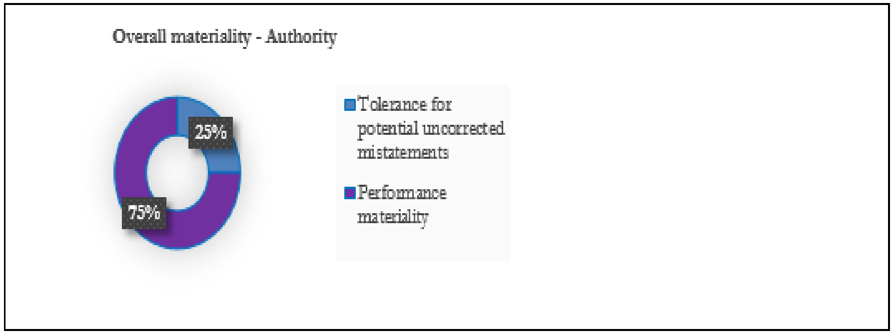
changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Authority
Financial statements as a whole	£7,988,000, which was 2% of the Authority's total gross cost of services expenditure for 2017/18. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. Materiality for the current year is at the same percentage level of total gross cost of services expenditure as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the Authority or the environment in which it operates.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality
Specific materiality	£25,000 materiality in relation to disclosure of senior officers' remuneration and exit packages, based on 2% of final reported values, due to public interest in these disclosures. £100,000 materiality in relation to disclosure of related party transactions, based on auditor judgement and taking into account understanding of the Authority and disclosed transactions.
Communication of misstatements to the Audit & Governance Committee	Misstatements of £395,000 and below that threshold, in our view, warrant reporting on qualitative grounds.

Page 38

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



Audit opinion (DRAFT ONLY)

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Authority's business, its environment and risk profile and in particular included:

- Gaining an understanding of and evaluating the Authority's internal control environment including its relevant IT systems and controls over key financial systems;
- Full scope audit procedures on the Authority's transactions, balances and disclosures. Testing undertaken covered X% of the Authority's income, Y% of its expenditure and Z% of its assets and liabilities.

Other information

The Director of Finance & Customer Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts within the Narrative Report on pages 3 to 17, the Annual Governance Statement on pages 98 to 113 and the Glossary on pages 114 to 119. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Audit opinion (DRAFT ONLY)

Our opinion on other matter required by the Code of Audit Practice is unmodified

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance & Customer Services [i] and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 18, the Authority 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 authority, that officer is the Director of Finance & Customer Services. The Director of Finance & Customer Services , is responsible for the preparation of the Statement of Accounts, which includes 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance & Customer Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance & Customer Services. is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit & Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and

Audit opinion (DRAFT ONLY)

are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Page 41

Other matters which we are required to address

We were appointed by the Audit Commission on 26 July 2012. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority and we remain independent of the Authority in conducting our audit.

The following services, in addition to the audit, were provided by the firm to the Authority after 1 April 2017 that have not been disclosed separately in the Statement of Accounts:

- Chief Finance Officer Insights (CFOi) and Place Analytics subscription for 2017/18
- Teachers' Pensions return certification for 2016/17

Our audit opinion is consistent with the additional report to the Audit & Governance Committee.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have

Audit opinion (DRAFT ONLY)

we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

To be signed

John Farrar
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

To be dated

Grant Thornton

grantthornton.co.uk

REPORT TO :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and Customer Services
DATE:	24th July 2018

WARD/S AFFECTED: All

Approval of the Statement of Accounts 2017/18

1. PURPOSE

The report outlines the issues arising from the external audit of the Council's 2017/18 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication by 31st July 2018, as required by the Accounts and Audit Regulations 2015.

2. RECOMMENDATIONS

Audit and Governance Committee is recommended to

1. Note 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 2017/18 (previous agenda item).
2. Approves the Statement of Accounts for 2017/18.
3. Approves the letter of representation from the Director of Finance & Customer Services. to the external auditors for which a draft is provided at Appendix 1, with the final version to be made available at the meeting.

3. BACKGROUND

The Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by members prior to publication by the 31st July following the year to which they relate. This will enable the Audit and Governance Committee to review and approve the accounts, having considered the issues raised by the auditors in their Audit Findings Report.

The 2017/18 Draft Statement of Accounts was certified by the Director of Finance and Customer Services on 31st May 2018, and subsequently published on the Council's website. The audit of those draft accounts commenced at the beginning of June 2018 and amendments have been made to the accounts in line with audit finding to date.

4. KEY COMPONENTS OF THE 2017/18 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 on the key issues affecting the Council over the financial year and the impact on its accounts. It also includes an analysis of the financial and non-financial performance of the Council, together with a brief summary of the content of the accounts.

Comprehensive Income and Expenditure Statement (page 22) - 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.

Analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is presented to reflect how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio controllable budgets.

Movement in Reserves Statement (page 23) - 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 £21.677 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows a reduction in General Fund reserves of £3.389 million in 2017/18, compared to a budgeted contribution to reserves of £1.573 million when the annual budget was approved in February 2017 (a difference of £4.962 million). This final revenue outturn position was reported to the Executive Board on 5th July 2018.

A reconciliation of revenue outturn to the Comprehensive Income and Expenditure Statement is provided in Note 1 - Expenditure and Funding Analysis (pages 26-28), with further details of the accounting adjustments made in accordance with proper accounting practice in Note 3 (pages 30-31).

Balance Sheet (page 24) - 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 2018 was £33.956 million. This comprises unallocated reserves of £6.055 million and earmarked reserves of £27.901 million, including:

- reserves set aside for discretionary purposes of £11.017 million
- reserves set aside for specified non-discretionary purposes £2.090 million.
- £14.383 million reserves held in respect of schools
- £0.411 million held in respect of joint arrangements.

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 £249.217 million and the long-term element of the liability in relation to the PFI contract for BSF Schools (£65.130 million). 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 25) - 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 69-70).

Notes to the Financial Statements (pages 26-75) – 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 76-78) – 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 79-97) – 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 will be formally approved by the Audit and Governance Committee in July 2018 prior to being included within the final published Statement of Accounts at pages 98-113.

5. KEY ISSUES

New timescales for preparation and audit of 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, have been brought forward as follows:

- 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 the 31st May following the year to which they relate..
- Following the conclusion of 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 the 31st July following the year to which they relate. 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 the 31st July following the year to which they relate.

Audit Findings Report

The Audit Findings Report, issued by the Council's external auditor, highlights the key findings arising from the final accounts audit in order that those charged with governance (i.e. the Audit and Governance Committee) may consider the issues prior to their approval of the Statement of Accounts.

A number of adjustments have been made to the Statement of Accounts published on 31st May 2018 in order to correct misstatements and misclassifications and to enhance the Narrative Report and disclosure notes. Further details of these amendments are included within the Audit Findings Report.

There are two unadjusted errors included in the Audit Findings Report:

- Land and Buildings are overstated by £1 million in relation to land at Witton Park High School, which should have been disposed of in the accounts when the school converted to academy status in a previous year.
- An asset valued at £500,000 has been misclassified as Land and Buildings in Note 13, which analysed movements in Property, Plant and Equipment. The asset should have been reported under the Surplus assets category.

These amounts have not been adjusted in the 2017/18 Statement of Accounts as they are immaterial to the results of the Council and its financial position as at 31 March 2018. Both items will be corrected in the 2018/19 accounts.

Letter of Representation

Draft wording for the letter of representation, which the Council is proposing to issue to Grant Thornton, following approval by Audit and Governance Committee, is included at Appendix 1.

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 2017/18, 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 & HEALTH IMPLICATIONS
There are no equality or health implications arising as a result of this report.

VERSION:	**0.01**
CONTACT OFFICER:	Julie Jewson, Senior Finance Manager
DATE:	19th July 2018
BACKGROUND PAPER:	Statement of Accounts 2017/18

Draft letter of representation.

Blackburn with Darwen Borough Council

Financial Statements for the year ended 31 March 2018

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 2018 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), in particular the financial statements are fairly stated in accordance therewith.

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.

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.

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

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

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.

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.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

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

We have considered the two unadjusted misstatements included in your Audit Findings Report and included in Appendix A to this representation letter. 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 for the reasons noted in the Audit Findings Report.

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

Actual or possible litigation claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

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

We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council 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.

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

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

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.

We have disclosed to you all our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:

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.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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.

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.

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

Annual Governance Statement

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

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 24 July 2018.

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

Unadjusted misstatements schedule

	Debit £	Credit £
(1)		
Land and Buildings (Balance sheet)		1,000,000
Loss on disposal of non-current assets (CIES – Other operating expenditure)	1,000,000	
Movement in Reserves Statement		1,000,000
Capital Adjustments Account (Balance Sheet)	1,000,000	

This relates to the valuation of Land at Witton Park High School which is an Academy School. Considering the lease between the Council and the Academy is over 100 years, there is no real existing use value of this land to the Council and therefore should be valued at nominal £1 on the balance sheet.

	Debit £	Credit £
(2)		
Land and Buildings (Balance sheet – Note 13)		500,000
Surplus Assets (Balance sheet – Note 13)	500,000	

Misclassification of Property Plant and Equipment assets categories within note 13 to the Statement of Accounts. The amount above should have been reported under the Surplus Assets category rather than under Land and Buildings. This is a disclosure adjustment only within note 13.

We have not adjusted the financial statements for these misstatements brought to our attention as it is immaterial to the results of the Council and its financial position at the year-ended 31 March 2018.

Blackburn with Darwen Council
Draft Statement of Accounts
2017/18

CONTENTS

Preface	
Narrative Report 2017/18	3
Statements to the Accounts	
Statement of Responsibilities	18
Independent Auditors' Report	19
Core Financial Statements and Explanatory Notes	
Comprehensive Income and Expenditure Statement	22
Movement in Reserves Statement	23
Balance Sheet	24
Cash Flow Statement	25
Notes to the Financial Statements	26
Supplementary Financial Statements and Explanatory Notes	
Collection Fund Income and Expenditure Statement	76
Notes to the Collection Fund Statement	78
Other Statements	
Accounting Policies	79
Annual Governance Statement	98
Glossary	114

CONTENTS

INDEX OF NOTES TO THE FINANCIAL STATEMENTS

Note No.	Note	Page
1	Expenditure and Funding Analysis	26
2	Expenditure and income analysed by nature	29
3	Adjustments between accounting basis and funding basis under regulations	30
4	Other operating expenditure	32
5	Financing and investment income and expenditure	32
6	Taxation and non-specific grant income	32
7	Grant income and contributions credited to cost of services	33
8	Officers' remuneration	34
9	Members' allowances	37
10	External audit costs	37
11	Trading operations	38
12	Events after the balance sheet date	38
13	Property, plant and equipment	38
14	Capital expenditure and capital financing	42
15	Accounting for schools	43
16	Heritage assets	44
17	Investment properties	45
18	Intangible assets	45
19	Long term investments	46
20	Long term debtors	46
21	Inventories	47
22	Short term debtors	47
23	Cash and cash equivalents	47
24	Short term creditors	47
25	Provisions	48
26	Financial instruments	49
27	Other long term liabilities	55
28	Private finance initiative (PFI)	55
29	Leases	55
30	Reserves	58
31	Post-employment benefits	63
32	Cash flow statement notes	69
33	Related parties	70
34	Contingent assets and liabilities	73
35	Trust funds	74

INTRODUCTION BY THE DIRECTOR OF FINANCE & CUSTOMER SERVICES – Louise Mattinson

Blackburn with Darwen Council, like most local authorities across the country, is working through an ongoing period of financial pressure and challenge as a result of the Government's extended programme of austerity, exacerbated by significant increases in demand for public services; critical financial pressures include:

- rising demand in Adult Social Care, for which the trajectory of spend shows no sign of abatement; as life expectancy continues to increase, so too do the demands faced in terms of the volume of service users and for many of these, the complexity of their needs;
- rising demand for Children's services;
- the impact of the increase in the National Living Wage on our social care providers which has ultimately increased the costs borne by the Council ;
- increases in pay and non-pay inflation and in the cost of employer pension contributions;
- the impact of continuing Welfare reform, most recently the roll-out of Universal Credit in the borough.

Difficult decisions have had to be made to ensure the Council can live within the funding available; some services have been curtailed, and in some instances ceased, departments and teams have been restructured, staff have been made redundant and contributions to partnership and contract working have had to be scaled back.

From a base of £183.1 million in 2010/11, funding is projected to reduce by 40% by 2019/20, compounded by the fact that the Council has had to absorb the costs of inflation and the costs of the increasing demands noted above. We have faced the challenge head on and 2017/18, like previous years, has seen the implementation and delivery of further savings as part of our efficiency programme, to which all teams, departments and portfolios have contributed, enabling the Council to deliver a balanced budget for 2018/19. Whilst projecting a small budget gap for 2019/20 of £4.9million, a programme of thematic reviews across digital change, procurement, alternative service delivery models and income and traded services are already underway, alongside reviews of single person discount and empty homes in the borough. Like all councils, we remain concerned for the financial position for 2020/21 and beyond given the lack of information provided by central Government in relation to future funding and the mechanisms for its distribution at this time.

However, in addressing the scale of the financial challenge faced, the Council has remained steadfast in pursuit of its strategy to deliver the Corporate Plan priorities, grounded in the principles of;

- delivering, as far as is possible, the services that our residents need and want,
- providing help and support to those in hardship, and
- encouraging the growth of jobs and businesses across the borough.

At Policy Council in December 2017 the Council agreed to continue working across the four themes which underpin the delivery of the Corporate Plan, to ensure we continue to meet the needs of the people we serve. Examples of just some of our achievements in delivering on our commitments during 2017/18 are;

Image and marketing of the borough

- The National Festival of Making took place in May 2017 and saw over 30,000 people flock to Blackburn town centre to enjoy the celebration of makers and making. Visitors came from all over the UK to enjoy two days of demonstrations, workshops and performances as well as a collection of art installations, held at a variety of venues around the town centre.

- Blackburn was selected as winner of 'Town Centre of the Year' and overall 'Winner of Winners' in the national Great British High Street Awards in July 2017 and winner of the Gold Award in the Royal Horticultural Society (RHS) national 'Britain in Bloom' competition

Fairness / Equality / Cohesion

- As part of the Government's launch of its Integrated Communities Strategy Green Paper in March 2018, the Council was selected by the Ministry of Housing, Communities and Local Government as one of 5 'Integration Areas', in recognition of our keen grasp and understanding of the challenges faced and our desire to try new ways of working, learning both from what does and doesn't work. This learning will be shared nationally as the programme develops as part of an ambitious long-term plan of action to tackle the root causes of poor integration to create a stronger, more united Britain.
- In recognising and promoting the positive community spirit that exists within the borough, and fitting with the Council's 'Your Call' ethos which is about encouraging and celebrating people giving something back to their community, the 'Good Neighbour Awards', were held for the sixth successive year. These awards have gone from strength to strength and showcase the best of Blackburn with Darwen and celebrate all of those people in the borough who go the extra mile to make it a better place. We had over 100 nominations this year from across the borough, which is the most ever received.

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

- Despite the funding 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, such as the work undertaken with our colleagues in the NHS to to develop new models of care and to integrate the Health and Social care economy both within the Lancashire and South Cumbria Sustainability and Transformation Programme (STP) and more locally across the Pennine Lancashire footprint.
- Again working with our partners, the Council successfully led a bid to Sport England on behalf of Pennine Lancashire to become one of 12 pilot schemes to develop a bold new approach to building healthier, more active communities across England. Around £100 million of National Lottery funding will be invested in the 12 pilot schemes over four years, to create innovative partnerships that make it easier for people in our communities to access sport and physical activity.
- And, in working to improve the borough for the benefit of our residents and businesses, the Council has successfully secured funding of over £20million to improve the highways infrastructure including funding from the Local Enterprise Partnership (LEP) for the Darwen East Development Corridor and Pennine Gateway schemes and funding from the National Productivity Investment Fund to open up gateways to the town centre; this will assist in opening up sites to build better homes and for new areas for employment with the potential to create hundreds of new jobs.

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

- The Council's Digital Services Programme has now been refreshed, relaunched and expanded to cover several areas; digital workforce, digital customer, digital Borough and digital partners. In 2017/18 our Digital Task Team began a rolling programme of reviews across all teams and service areas within the Council to ensure they are maximising the use of digital technology. As part of each review they produce digital service reports and digital roadmap action plans for each team to work towards. Other work streams in the programme have also commenced in the year including the replacement of the Council website and the review of digital provision for citizens across the borough.

As the financial statements demonstrate, despite the financial challenges faced during 2017/18, 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 2017/18 REVENUE BUDGET PROCESS

With regards to funding, as part of the 2015 Spending Review and Local Government Finance Settlement for 2016/17, an offer of a 4 year funding settlement up to 2019/20 was made to all Councils. The purpose of this offer was to assist all local authorities by providing greater certainty of their funding over the period and to provide more stability to enable more proactive planning of their service delivery. At their meeting of 6th October 2016, Council Forum agreed to accept this offer, and the government's indicative figures form the basis of the Council's 2017/18 Budget and Medium Term Financial Strategy (MTFS) 2017-2020.

The purpose of the MTFS is to set the financial framework for the Council for the medium term to ensure delivery of the Council's strategic objectives and major projects. This requires a review and assessment of revenue budgets, the capital programme, levels of reserves and potential future council tax levels, based on funding projections and other financial and economic assumptions.

The MTFS underpins the Council's Corporate Plan, which was agreed by elected members at Council Forum in July 2016, and sets out for residents, staff and partners, the Council's top priorities for 2016 to 2019 and how the Council will continue to improve services and prepare for the ongoing and difficult financial challenges ahead.

The Council's six priority objectives for residents are:

- Creating more **jobs** and supporting business growth
- Improving **housing** quality and building more houses
- Improving **health and wellbeing**
- Improving outcomes for our **young people**
- Safeguarding the most **vulnerable people**
- Making your money go further

As noted in the introduction by the Director of Finance and I.T. to support the delivery of these priority objectives, four long term strategic themes will be distilled into every portfolio to complement the Corporate Priorities:

- Image and Marketing of the borough
- Fairness / Equality / Cohesion
- To remain strong on partnerships, working with businesses and other public sector organisations, as well as residents and community groups;
- To make use of technology and digital opportunities in all services;

The Council's Budget Strategy, including the proposals for the Revenue Budget 2017/18 and the MTFS and Capital Programme for 2017-20 were agreed at Finance Council on 27th February 2017. Further allocations of funding for adult social care via the Improved Better Care Fund (iBCF) were subsequently announced in the Chancellor's Spring Budget. Initial allocations of the fund were issued through the Local Government Finance Settlement, and the MTFS approved at Finance Council on 27th February 2017 included an amount of £717,000 (within the government grants line in the table below). The additional allocation of £3.590 million increased the total funding for iBCF for Blackburn with Darwen to £4.307 million in 2017/18.

MEDIUM TERM FINANCIAL STRATEGY 2017-2020	2017/18 £000	2018/19 £000	2019/20 £000
Net expenditure			
Portfolio controllable budgets (net of agreed savings targets)	101,861	103,104	105,455
Cost of capital investment	18,395	18,191	18,438
Central contingencies	3,885	2,767	5,011
Parish precepts	181	181	181
Contribution to reserves	1,573	1,499	0
Total net expenditure	**125,895**	**125,742**	**129,085**
Resources			
Government (non-ringfenced) grants	(59,919)	(57,334)	(56,083)
Business rates retained locally	(19,281)	(19,712)	(20,412)
Council Tax	(47,059)	(48,696)	(50,390)
Collection Fund surplus from 2016/17 (estimated)	364	0	0
Contribution from reserves	0	0	(2,200)
Total resources	**(125,895)**	**(125,742)**	**(129,085)**
Budget shortfall / (surplus)	**0**	**0**	**0**

Council Tax

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. In the draft Financial Settlement for 2017/18, the government announced the option for Councils to re-phase the implementation of this precept with a maximum precept of 3% in any one year, whilst retaining a cap of 6% over the 3 years through to 2019/20.

Given the scale of the financial and demand pressures on Adult Social Care services, the MTFS for 2017-2020 assumed increases of 3% in 2017/18 and 1.5% for each of the two following years.

For 2017/18, Finance Council agreed a total council tax increase of 4.99%, of which 3% (£1,340,400) 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	46.905	1,383.15
Lancashire Police and Crime Commissioner Precept	5.611	165.45
Lancashire Combined Fire Authority Precept	2.221	65.50
Total	**54.737**	**1,614.10**

Budget Monitoring

Revenue and capital budget monitoring information is reported to the Executive Board on a quarterly basis throughout the year, with the Actual Outturn position being reported in the Quarter 4 report. In addition, Treasury Management performance is reviewed by the Treasury Management Group and reported to the Audit and Governance Committee.

CAPITAL STRATEGY AND CAPITAL PROGRAMME 2017/18 TO 2019/20

A capital programme for 2017-2020 of £48.6 million was agreed at Finance Council on 27th February 2017. 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, and predominantly comprises of existing commitments including investment:

- in our local transport plan,
- in the highways network recovery programme, and
- in aids and adaptations through provision of disabled facilities grants.

Allocations are also included:

- for our successful Growth Deal 3 bid which will open up the Pennine gateways around the Borough to facilitate housing and business growth
- to support continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings,
- to support the accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space.

The programme will contribute towards the achievement of the Council's key priorities:

- Creating more jobs and supporting business growth – through construction and in improving transport networks and enhancing the town centre
- Improving housing quality and building more houses – by facilitating access to housing developments
- Making your money go further – through rationalisation of accommodation and maximising the use of technology to streamline services and processes.

The original capital programme for 2017/18 was agreed by Finance Council at £21.215 million, made up of:

	£000
Approved schemes	17,884
Earmarked schemes	2,831
Contingent schemes	500
Total capital programme	**21,215**

As 2017/18 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	(4,527)
Capital receipts	(2,557)
Contributions from revenue	(500)

Government grants	(12,116)
External contributions	(1,515)
Total	**(21,215)**

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.

A report detailing the Council's Treasury Management Strategy, Treasury and Prudential Indicators and a policy for determining a "prudent" level of Minimum Revenue Provision for repayment of debt was approved at Finance Council on 27th February 2017.

FINANCIAL PERFORMANCE OF THE COUNCIL 2017/18

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 2017/18 the Council approved a revenue budget of £125.895 million. This represented approved net expenditure of £124.322 million (which includes parish precepts of £181,200) plus a net contribution to Council reserves of £1.573 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 £000	Revised Estimate £000	Actual Outturn £000	Variation from Revised £000
Net Expenditure				
Health and adult social care *	43,353	46,185	45,811	(374)
Children's services	21,134	26,051	26,057	6
Environment	8,860	8,783	8,824	41
Leisure, culture and young people	3,162	3,255	4,232	977
Neighbourhood and prevention services	1,368	989	825	(164)
Regeneration	7,692	7,940	7,665	(275)
Resources	13,531	15,947	15,615	(332)

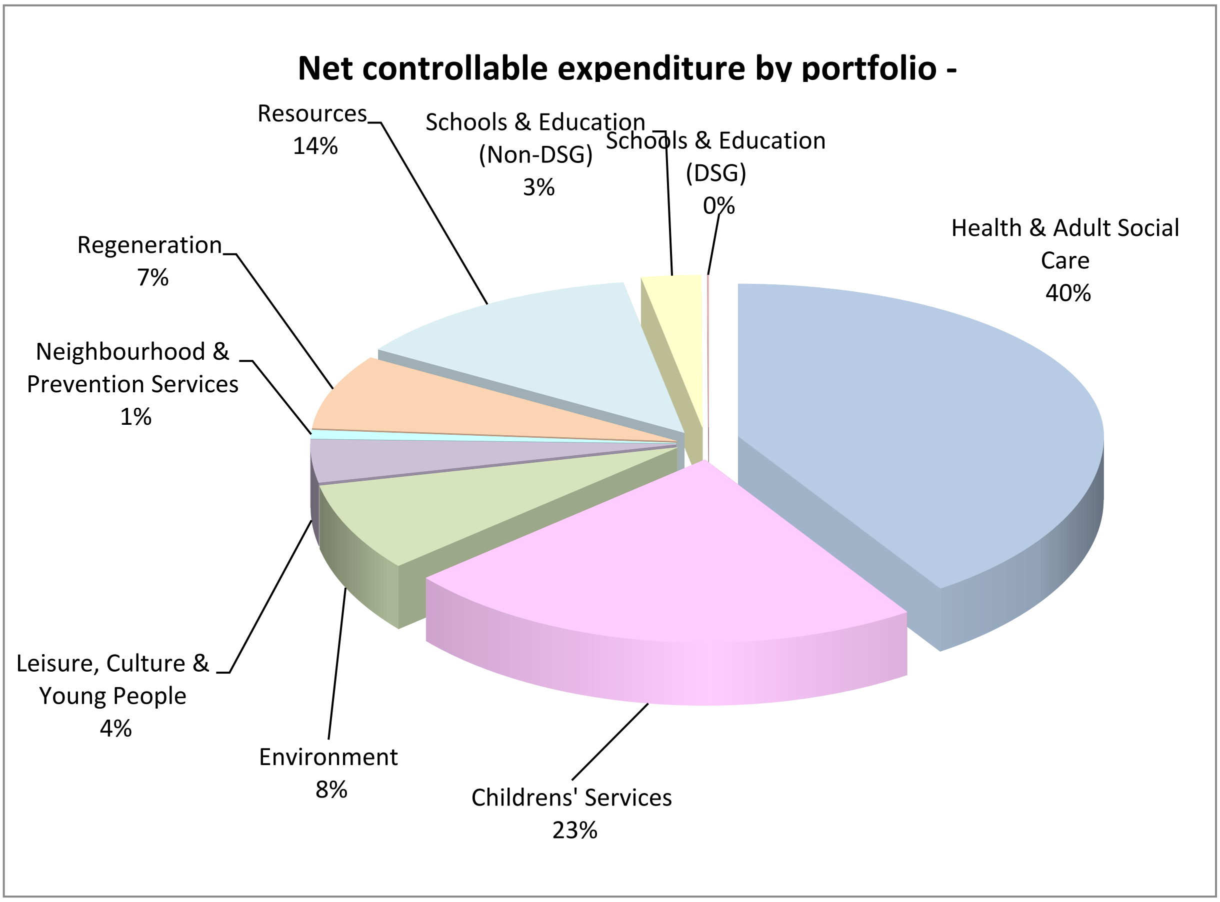
Schools and education (Non-DSG)	3,402	3,547	3,534	(13)
Schools and education (DSG) **	(641)	(641)	73	714
Net portfolio controllable expenditure	**101,861**	**112,056**	**112,636**	**580**
Contribution from schools for prudential borrowing	(650)	(650)	(650)	0
Contribution to capital expenditure	500	349	349	0
Interest and debt repayment	18,545	18,302	18,452	150
Amounts to be allocated / contingencies	3,885	2,881	2,882	1
Parish councils	181	181	181	0
Total net expenditure	**124,322**	**133,119**	**133,850**	**731**
Contribution (from)/to reserves	1,573	(3,611)	(3,389)	222
Total net budget	**125,895**	**129,508**	**130,461**	**953**
Financed by:				
Non-ringfenced Government grants *	(59,919)	(63,532)	(64,485)	(953)
Non-domestic rates	(19,281)	(19,281)	(19,281)	0
Council tax	(47,059)	(47,059)	(47,059)	0
Net surplus / (deficit) on Collection Fund	364	364	364	0
Total financing	**(125,895)**	**(129,508)**	**(130,461)**	**(953)**

* ***Health and adult social care*** *– the original estimate does not include expenditure funded by the further allocation of £3.590 million iBCF announced in the Chancellor's Spring Budget 2017. The additional expenditure and matching funding (within Non-ringfenced Government grants) was reported in the Quarter 1 corporate budget monitoring report*

**** ***Schools and education (DSG)*** *- The net deficit of £714,000 comprises a deficit of £0.601 million from individual schools, together with a deficit of £0.113 million in respect of centrally retained budgets.*

Portfolio controllable budgets overspent by £0.580 million in total, which was largely funded by increased use of the council's reserves. The most significant variance was in relation the Leisure, Culture and Young People portfolio, which had reported pressures within Leisure services during the year. At year end the portfolio reported a final overspend of £977,000 due to pressures across the Leisure Centres and Halls. These budgets are being reviewed to ensure that the pressures faced in 2017/18 are addressed by the portfolio in 2018/19. .

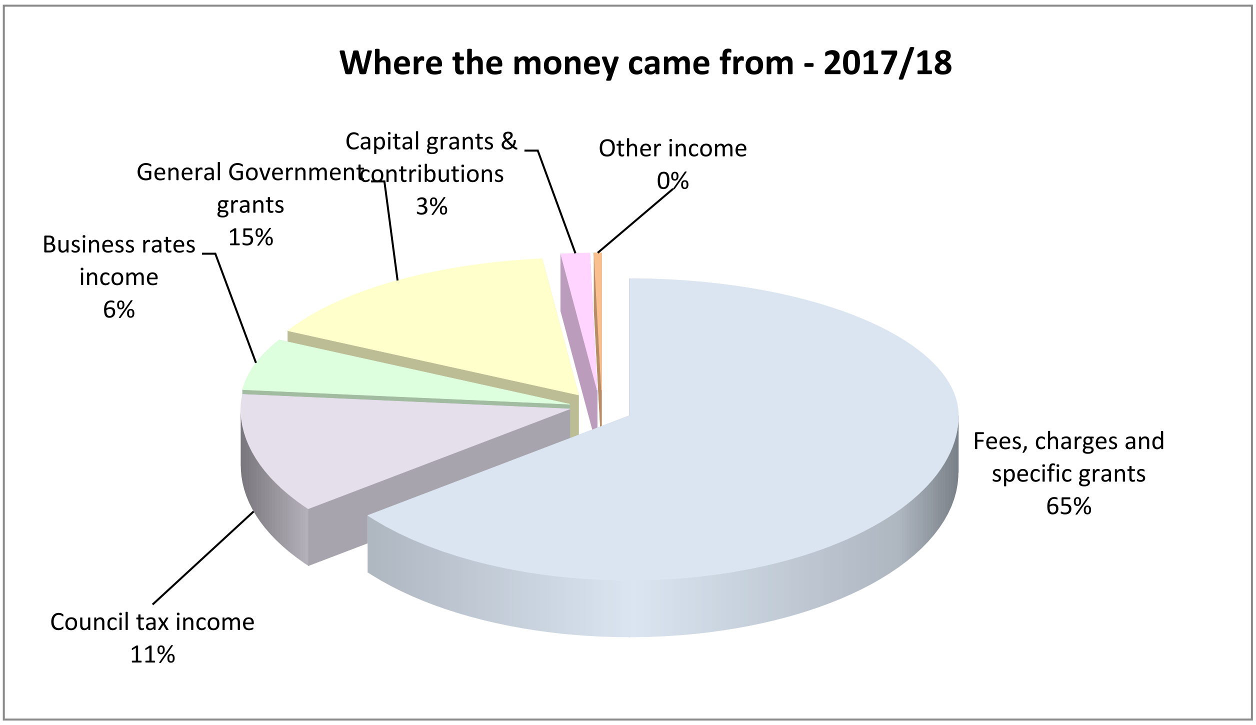
The net controllable expenditure by portfolio for 2017/18 is shown in the chart below.

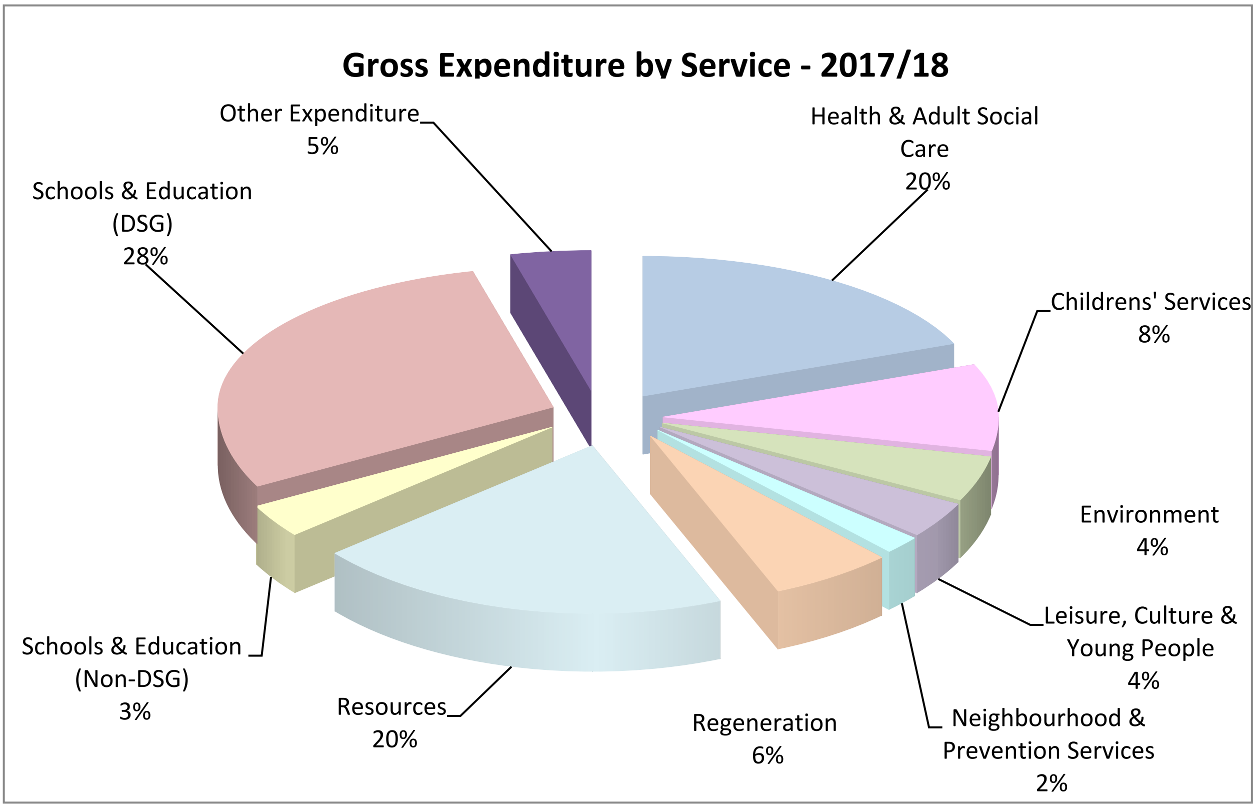


Decisions about resource allocation are taken by the Council's Executive Board on the basis of budgets analysed across portfolios as shown above. Portfolio controllable budgets monitored and revised throughout the year and actual expenditure and income (revenue outturn) is measured against this revised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

Analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is 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 controllable budgets. The 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 2017/18 was £17.884 million although additional approvals in year resulted in a revised programme of £22.512 million. Actual expenditure was £18.655 million which is 82.9% of the revised programme.

	Approved Programme £000	Revised Programme £000	Actual £000	Variation from Revised £000
Capital Expenditure				
Health and adult social care	2,079	1,892	1,264	(628)
Children's services	533	872	331	(541)
Environment	0	1,365	1,089	(276)
Leisure, culture and young people	6	569	475	(94)
Neighbourhood and prevention services	623	84	88	4
Regeneration	6,033	7,719	7,812	93
Resources	2,115	1,549	1,386	(163)
Schools and education	6,495	8,462	6,210	(2,252)
Total capital expenditure	**17,884**	**22,512**	**18,655**	**(3,857)**
Resources				
Unsupported borrowing	(3,753)	(5,358)	(5,122)	236
Contributions from revenue	(500)	(774)	(349)	425
Government grants	(12,116)	(15,550)	(12,644)	2,906
External contributions	(1,515)	(830)	(540)	290
Total resources	**(17,844)**	**(22,512)**	**(18,655)**	**3,857**

The total variation at outturn compared to the last report approved by Executive Board is £3.857 million, of which £2.252 million relates to slippage on the Schools capital programme.

The major schemes in 2017/18 are listed below together with the sources of financing.

Capital Expenditure	£000
Health and adult social care	
Disabled facilities grant	1,056
Environment	
Old Bank Lane Car Park	1,030
Leisure, culture and young people	
Woolridge Playing Fields	293
Regeneration	
Local Transport Plan	4,550
Blakey Moor	756
Darwen 3 Day Market	462
Department of Energy and Climate Change (DECC) Central Heating Fund	569
Cathedral Square Office Block Fit-out	270
Land Release Fund	288
Resources	
Davyfield Road Offices Remodel	212
Corporate ICT Schemes	849
Schools and education	
Cedars Primary School	1,539
Newfield School ASD	4,274
Other schemes	2,507
Total	**18,655**

Capital Financing	£000
Unsupported borrowing	(5,122)
Contributions from revenue	(349)
Government grants and external contributions	(13,184)
Total	**(18,655)**

Treasury Management

During 2017/18, the Council's investment balances averaged around £29 million, generally ranging between £15 million and £40 million. Funds were generally either kept on call, or in relatively short term investments, resulting in low returns. Interest earned was approaching £75,000 at an average rate of 0.25%.

Excluding the nominal debt associated with schools Private Finance Initiative (PFI) schemes, the Council's long term debt fell from £128 million to £125 million, with £85 million in short term loans across the end of the year taking the closing total up to £210 million. Interest on financing this debt cost the Council approximately £5.7 million (down from £5.9 million in 2016/17), with another £0.3 million interest cost on the £15.7 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 - fell from £232 million to £230 million. The Council's long term borrowing was £89 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.

The Council has continued to benefit from lower MRP (Minimum Revenue Provision for debt repayment) costs in 2017/18, following its decision to review its MRP Policy in 2016/17, though to a lesser extent, with actual MRP costs of £6.2 million (compared to £5.5 million in 2016/17, and £8.7 million in 2015/16).

Pension Fund Liability

The pension fund liability at 31 March 2018 as estimated by the fund actuary was £258 million compared to £285 million at 31 March 2017. 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.

The pension fund liability included within the Council's Balance Sheet has been reduced from £258 million to £249 million to reflect a £9 million advance payment in respect of the Council's pension deficit share. Further details on post-employment benefits are provided in Note 31.

NON FINANCIAL PERFORMANCE

Blackburn with Darwen continues to promote its town centres and the wider area – aiming to promote economic growth and improve opportunities and the quality of life for residents. Achievements during the year have included:

- As noted in the Introduction by the Director of Finance & I.T. the Festival of Making was held in May 2017 to enjoy the celebration of makers and making. The event directed and produced by Wayne Hemingway MBE was held in the town thanks to its strong connection with manufacturing forged during the industrial revolution. Blackburn also boasts a unique status in the UK, having the highest proportion (25%) of its workforce working in making and manufacturing. The event attracted over twice the numbers predicted and is becoming an annual event with a second Festival of Making taking place in May 2018.
- The Council agreed a new 'Strategic Alliance' with Lancaster University and Blackburn College to tackle long-standing economic, education, health, environmental and social challenges. The special agreement will see the university's research, expertise, facilities and networks applied to improve local employment and skills needs, promote economic growth, accelerate the innovation and reform of public services and promote improved public health. In July 2017, the partnership successfully gained the award of national Local Government Association (LGA) Leading Places Pilot within the context of the government's new Industrial Strategy, which places a fresh emphasis on institutional capacity as a key driver of local growth.
- The Hive Business School was formed in 2016, borne out of the Hive Business Leaders Network, with the aim of supporting greater collaboration between the borough's businesses and its education providers. Since its inception, Hive Business School has facilitated a designated business link for every high school in the borough and has collaborated on over 30 different projects.
- Staff working across different Council departments volunteered to be part of a high profile campaign aimed at helping people street begging in Blackburn. The Council alongside Blackburn's

Business Improvement District (BID), local charity T.H.O.M.A.S (Those on The Margins of a Society) and other partner agencies, are behind a drive to highlight support and services available in the borough. Outreach ‘Street Teams’ have been commissioned to work in the town to provide a helping hand to people begging on the streets. As part of the campaign, people are being encouraged to consider donating to local charities, such as T.H.O.M.A.S, that provide food, shelter and support rather than handing over cash to those begging.

- The Council is proud to support people who have a disability and, in December 2017, was re-awarded the Department of Work and Pensions Disability Confident badge to reflect the support the Council offers to candidates who have a disability, as well as to its employees.
- Every household in Blackburn with Darwen now has the opportunity to benefit from a local energy offering with ‘Fairerpower Red Rose’. This successful energy scheme, originally established in 2015 by Cheshire East Council in partnership with Ovo Energy, has now extended to Lancashire and is managed by the Skills and Growth Company in partnership with councils across the county. The Council’s aim in promoting the scheme is to eradicate fuel poverty in Blackburn with Darwen by helping more people switch energy providers and at the same time offer award-winning customer service so everyone can have the best experience.

The Council is also continuing to focus on its health and wellbeing strategy, with the aim of integrating health, safeguarding and care services for the benefit of residents.

Blackburn with Darwen’s award-winning Wellbeing Service has been praised in a national report by a leading health think tank. In its report: ‘Tackling multiple unhealthy risk factors’, the King’s Fund looks into ways of tackling the risks of unhealthy habits like tobacco use, alcohol consumption, diet or physical activity via integrated health and care services – which it considers the best way of managing demand. The Council’s Wellbeing Service is cited as an example of best practice for its innovative approach to bringing together a wide range of services that support health and wellbeing and making them accessible via a single contact point. The work of the service’s health trainers were praised in the report; staff who provide face-to-face consultations and personalised sessions as well as follow up meetings and ongoing support.

Last year the Wellbeing Service scooped an award for Transformation in Health and Social Care from public sector improvement organisation iESE (Improvement and Efficiency Social Enterprise).It was also shortlisted as one of only four finalists for the NICE Shared Learning Award 2017.

Three Council services have recently been inspected by the Care Quality Commission (CQC). The CQC inspectors assessed whether the services are safe, effective, caring, responsive and well-led. All three of the following services received a ‘good’ rating in all areas:

- St Aidan’s Short Term Breaks service provides respite care for adults with a learning disability.
- The Shared Lives Scheme offers vulnerable adults the chance to receive the care and support they need in a different setting to the family home, or the supported accommodation, in which they usually live.
- The Reablement service works with people in their own homes to help them to maximise their independence after a period of illness, disability or loss of confidence.

Teams across the Council have been helping to lead the Riverside Heights Housing with Care scheme, which is set to open in Darwen during Spring 2018. The £12million housing with care scheme is for local people aged over 50 with an assessed need for care and/or support. The development comprises 85 self-contained apartments, with a range of additional facilities including a residents’ lounge, restaurant, hair and beauty salon and secluded gardens. These superb facilities will be open to the local community as well as residents. Housing with care provides high-quality accommodation with on-site care services tailored to individual needs. The aim of this safe and secure scheme is to enable older people to live independently for longer.

Working in partnership with Health and Macmillan cancer support Council staff are continuing to play a key role in a pioneering project which is designed to provide better care and support for cancer patients in Blackburn with Darwen and East Lancashire from the moment of diagnosis through to beyond treatment.

Within Children's services the Council have continued to see increased numbers of children being subject to Child Protection Plans and children coming into the care of the local authority. In response to this, last year the Borough piloted an offer of Family Group conferencing which had some impressive results. The Blackburn with Darwen pilot saw a Family Group Conference (FGC) co-ordinator, who is independently appointed, work with 15 families, and a total of 33 children in the first 12 months. Only two children from these families subsequently became looked after by the Council.

Family Group Conferences (FGCs) are a way of making decisions about the care of children by involving the extended family, such as grandparents, aunts and uncles, and friends in the planning process of establishing a plan of support to improve outcomes for the children in the family.

During September and October 2017, Ofsted carried out an inspection of services for children in need of help and protection, children looked after and care leavers. It also reviewed the effectiveness of the Local Safeguarding Children Board. The resulting report, which was published in December 2017, concluded that services for children and young people in Blackburn with Darwen are good. The report also noted that the Director of Children's Services (DCS) and her senior management team have an accurate view of the strengths and the areas needing further development in the service, and that the wider council is supportive of the department, with corporate priorities that focus on improving outcomes for children and safeguarding vulnerable people.

Since the last inspection, there have been some good improvements, including enhanced support to the mainstream service through teams of family support workers and advanced practitioners, as well as the implementation of a locally designed framework for assessing risk. Early intervention is a priority, with well-coordinated support delivered through eight designated children's centres, and well-coordinated support for disabled children and young people. Council staff use all of these initiatives to enable children to remain living at home when it is safe to do so. Some areas of help and protection are not as strong as those for children looked after but, across all areas of the service, including some services providing help and protection, inspectors saw some very good services delivering improved outcomes for children.

CONTENT OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts summarises the Council's transactions for the financial year 2017/18 and its position at the year end of 31 March 2018. 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 & Customer Services.
- 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 & Customer Services' responsibilities

The Director of Finance & Customer Services 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 & Customer Services 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 & Customer Services 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 2018.

L Mattinson
Director of Finance & Customer Services
Blackburn with Darwen Borough Council
xxth July 2018

Approval of Accounts

S Sidat
Chair of Audit and Governance Committee
xxth July 2018

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.

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.

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.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2016/17				2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
79,995	(36,490)	43,505	Health and Adult Social Care	82,901	(35,699)	47,202
31,154	(6,026)	25,128	Children's Services	35,102	(6,749)	28,353
18,589	(8,189)	10,400	Environment	18,263	(9,153)	9,110
14,345	(7,806)	6,539	Leisure, Culture and Young People	14,740	(7,736)	7,004
8,637	(4,217)	4,420	Neighbourhood and Prevention Services	7,390	(5,220)	2,170
33,078	(11,103)	21,975	Regeneration	24,692	(9,603)	15,089
85,536	(61,870)	23,666	Resources	84,239	(59,166)	25,073
13,655	(4,670)	8,985	Schools and Education (non-DSG)	13,615	(5,513)	8,102
114,394	(115,691)	(1,297)	Schools and Education (DSG)	118,036	(117,412)	624
399,383	**(256,062)**	**143,321**	**Cost of Services**	**398,978**	**(256,251)**	**142,727**
		456	Other operating expenditure (Note 4)			(215)
		18,446	Financing and investment income and expenditure (Note 5)			17,711
		(140,142)	Taxation and non-specific grant income (Note 6)			(138,546)
		22,081	**(Surplus)/deficit on provision of services**			**21,677**
		455	(Surplus)/deficit on revaluation of non-current assets (Note 30)			(1,932)
		71,374	Remeasurement of the net defined benefit pension liability (Note 31)			(41,035)
		71,829	**Other comprehensive income and expenditure**			**(42,967)**
		93,910	**Total comprehensive income and expenditure**			**21,290**

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 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**
Total comprehensive income and expenditure (a)	21,677	0	0	21,677	(42,967)	(21,290)
Adjustment between accounting basis and funding basis under regulation (Note 3)	(18,288)	0	4,999	(13,289)	13,289	**0**
Net (increase)/decrease	**3,389**	**0**	**4,999**	**8,388**	**(29,678)**	**(21,290)**
Balance at 31 March 2018	**(33,956)**	**0**	**(7,050)**	**(41,006)**	**101,479**	**60,473**

a) Total Comprehensive Income and Expenditure from the Comprehensive Income and Expenditure Statement.
b) The General Fund column amalgamates the Council's Earmarked and Unallocated reserves (Note 30).

BALANCE SHEET

31 March 2017 £000		Note	31 March 2018 £000
412,695	Property, plant and equipment	13	411,944
19,444	Heritage assets	16	19,444
72	Investment properties	17	80
2,158	Intangible assets	18	1,814
786	Long term investments	19	772
27,931	Long term debtors	20	27,626
463,086	**Long term assets**		**461,680**
13,044	Short term investments	26	17,652
307	Inventories	21	302
15,313	Short term debtors	22	15,609
14,300	Cash and cash equivalents	23	22,685
42,964	**Current assets**		**56,248**
(1,771)	Bank overdraft	23	(4,030)
(70,741)	Short term borrowing	26	(99,963)
(28,644)	Short term creditors	24	(28,090)
(101,156)	**Current liabilities**		**(132,083)**
(4,549)	Provisions	25	(3,209)
(114,200)	Long term borrowing	26	(113,410)
(367,908)	Other long term liabilities	27	(329,699)
(486,657)	**Long term liabilities**		**(446,318)**
(81,763)	**Net assets**		**(60,473)**
(49,394)	Usable reserves	30	(41,006)
131,157	Unusable reserves	30	101,479
81,763	**Total reserves**		**60,473**

CASH FLOW STATEMENT

2016/17 £000		Note	2017/18 £000
(22,081)	Net surplus/(deficit) on the provision of services		(21,677)
25,038	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	23,666
(15,507)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	(8,945)
(12,550)	**Net cash flows from operating activities**		**(6,956)**
(13,533)	Investing activities	32	(10,920)
28,561	Financing activities	32	24,002
2,478	**Net increase/(decrease) in cash or cash equivalents**		**6,126**
10,051	Cash and cash equivalents at the beginning of the reporting period		12,529
12,529	**Cash and cash equivalents at the end of the reporting period**		**18,655**

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.

2016/17				2017/18		
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
43,030	475	43,505	Health and Adult Social Care	45,811	1,391	47,202
23,933	1,195	25,128	Children's Services	26,057	2,296	28,353
9,645	755	10,400	Environment	8,824	286	9,110
5,290	1,249	6,539	Leisure, Culture and Young People	4,232	2,772	7,004
2,221	2,199	4,420	Neighbourhood and Prevention Services	825	1,345	2,170
9,265	12,710	21,975	Regeneration	7,665	7,424	15,089
17,588	6,078	23,666	Resources	15,615	9,458	25,073
4,506	4,479	8,985	Schools and Education (non-DSG)	3,534	4,568	8,102
0	(1,297)	(1,297)	Schools and Education (DSG)	73	551	624
115,478	**27,843**	**143,321**	**Cost of Services**	**112,636**	**30,091**	**142,727**
(109,328)	(11,912)	(121,240)	Other income and expenditure	(109,247)	(11,803)	(121,050)
6,150	**15,931**	**22,081**	**(Surplus)/deficit**	**3,389**	**18,288**	**21,677**

(43,495)			**Opening General Fund Balance at 1 April**	**(37,345)**		
6,150			**(Surplus)/deficit**	3,389		
(37,345)			**Closing General Fund Balance at 31 March**	**(33,956)**		

2017/18 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	426	970	(5)	1,391
Children's Services	407	1,880	8	2,295
Environment	(448)	736	(2)	286
Leisure, Culture and Young People	1,798	979	(6)	2,771
Neighbourhood and Prevention Services	842	505	(2)	1,345
Regeneration	6,611	833	(20)	7,424
Resources	6,130	1,929	1,399	9,458
Schools and Education (non-DSG)	4,066	506	(2)	4,570
Schools and Education (DSG)	70	1,761	(1,280)	551
Net Cost of Services	**19,902**	**10,099**	**90**	**30,091**
Other expenditure and income from the Expenditure and Funding Analysis	(13,723)	4,091	(2,171)	(11,803)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**6,179**	**14,190**	**(2,081)**	**18,288**

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**

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

2016/17				2017/18		
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			
154,250	0	154,250	Employee benefits expenses	155,102	0	155,102
224,069	0	224,069	Other services expenses	225,815	0	225,815
21,064	8	21,072	Depreciation, amortisation and impairment	18,061	(8)	18,053
0	20,104	20,104	Interest payments and other similar charges	0	19,417	19,417
0	244	244	Precepts and levies	0	244	244
0	212	212	Gain or loss on disposal of non-current assets	0	(459)	(459)
399,383	20,568	419,951	Total expenditure	398,978	19,194	418,172
			Income			
(55,263)	(6)	(55,269)	Fees, charges and other service income	(57,175)	(6)	(57,181)
0	(1,660)	(1,660)	Interest and investment income	0	(1,692)	(1,692)
0	(66,383)	(66,383)	Income from Council Tax and Non-Domestic Rates	0	(67,368)	(67,368)
(200,799)	(73,759)	(274,558)	Government grants and other contributions	(199,076)	(71,178)	(270,254)
(256,062)	(141,808)	(397,870)	Total income	(256,251)	(140,244)	(396,495)
143,321	**(121,240)**	**22,081**	**Surplus or Deficit on the Provision of Services**	**142,727**	**(121,050)**	**21,677**

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 2017/18	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)	(16,860)	0	0	16,860
Movements in the fair value of investment properties	8	0	0	(8)
Amortisation of intangible assets	(1,201)	0	0	1,201
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	8,185		(2,282)	(5,903)
Revenue expenditure funded from capital under statute (REFCUS)	(3,333)	0	0	3,333
Net gain or (loss) on sale or de-recognition of non-current assets	459	(760)	0	301
Statutory provision for repayment of debt	6,214	0	0	(6,214)
Capital expenditure charged to the General Fund balance	349	0	0	(349)
Use of the capital receipts reserve - set aside to reduce the net indebtedness of the Council	0	760	0	(760)
Use of grants and contributions received in prior year to finance new capital expenditure	0	0	7,281	(7,281)
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	56	0	0	(56)
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	(14,190)	0	0	14,190
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	1,392	0	0	(1,392)
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	635	0	0	(635)
Total adjustments	**(18,288)**	**0**	**4,999**	**13,289**

Comparative 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 de-recognition 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**

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

4 OTHER OPERATING EXPENDITURE

2016/17 £000		2017/18 £000
182	Parish council funding	181
62	Levies	63
0	Payments to the Government – housing capital receipts	0
212	(Gains)/losses on the disposal of non-current assets	(459)
456	**Total**	**(215)**

5 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2016/17 £000		2017/18 £000
12,658	Interest and other similar charges	12,444
7,446	Pensions net interest and administration costs	6,973
(1,660)	Interest receivable and similar income	(1,692)
2	Income and expenditure in relation to investment properties and changes in their fair value	(14)
18,446	**Total**	**17,711**

6 TAXATION AND NON-SPECIFIC GRANT INCOME

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

2016/17 £000		2017/18 £000
(62,223)	Non-ringfenced Government grants	(64,485)
(11,536)	Capital grants and contributions	(6,693)
(73,759)	**Total non-specific grant income**	**(71,178)**
(43,848)	Council tax income	(46,725)
(22,535)	Non-domestic rates income	(20,643)
(140,142)	**Total**	**(138,546)**

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

Non-ringfenced Government grants

2016/17 £000		2017/18 £000
(28,854)	Revenue support grant	(22,301)
(17,979)	Top-up grant (business rates retention scheme)	(22,522)
(2,146)	Compensation for loss of business rates income	(3,031)
(1,758)	Education services grant	(488)
(1,746)	New Homes Bonus grant	(1,428)

(908)	Benefits administration grant	(840)
(8,471)	Private finance initiative (PFI) revenue grant	(8,471)
0	Improved Better Care Fund	(4,307)
(361)	Other	(1,097)
(62,223)	**Total**	**(64,485)**

Capital grants and contributions

2016/17 £000		2017/18 £000
(6,352)	Education capital	(1,114)
(3,449)	Transport	(4,133)
(52)	Energy and climate change	0
(474)	Other Government grants	(578)
(1,209)	Other contributions	(868)
(11,536)	**Total**	**(6,693)**

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.

2016/17 £000		2017/18 £000
(99,707)	Dedicated schools grant	(100,463)
(6,779)	Pupil premium grant	(6,568)
(15,726)	Public health grant	(15,218)
(53,996)	Rent allowances subsidy	(50,451)
(7,638)	Other government grants	(9,877)
(2,438)	Contributions from other local authorities	(2,679)
(7,314)	Contributions from other public sector bodies	(6,763)
(5,213)	Other contributions	(5,565)
(1,988)	Funding of REFCUS expenditure from grants and contributions	(1,492)
(200,799)	**Total**	**(199,076)**

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 2016/17 and 2017/18 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
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)**
Final DSG for 2017/18 before academy recoupment			**(148,704)**
Academy figure recouped for 2017/18			**47,669**
Total DSG after academy recoupment for 2017/18			**(101,035)**
Brought forward from 2016/17			**(10,644)**
Agreed initial budgeted distribution for 2017/18	**(30,138)**	**(81,541)**	**(111,679)**
Actual central expenditure relating to DSG	21,407	0	**21,407**
Actual ISB deployed to schools	0	81,541	**81,541**
Carry forward to 2018/19	**(8,731)**	**0**	**(8,731)**

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 175 includes 111 teachers (154 including 96 teachers in 2016/17).

No of Employees 2016/17	Remuneration Banding	No of Employees 2017/18
57	50,000 to 54,999	68
41	55,000 to 59,999	49
25	60,000 to 64,999	22
13	65,000 to 69,999	22
9	70,000 to 74,999	4
0	75,000 to 79,999	3
1	80,000 to 84,999	3
1	85,000 to 89,999	0
1	90,000 to 94,999	1
2	95,000 to 99,999	1
2	100,000 to 104,999	1
0	105,000 to 109,999	0
1	110,000 to 114,999	0
1	115,000 to 119,999	1
154	**Total**	**175**

The following tables provide an analysis by job title of the remuneration and employer's pension scheme contributions in respect of senior officers for 2017/18 and 2016/17. These posts are in addition to those included in the previous table.

2017/18

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)	1	154	0	0	154	19	**173**
Deputy Chief Executive – Denise Park	1	131	0	0	131	16	**147**
Director of Adult Services	2	24	0	0	24	3	**27**
Director of Adults & Prevention	2	94	0	0	94	11	**105**
Director of Public Health		111	0	0	111	16	**127**
Director of Children's Services	3	112	0	0	112	13	**125**
Director of Environment & Leisure		94	0	0	94	11	**105**
Director of Strategy & Funding	4	72	0	67	139	9	**148**
Director of Finance & Customer Services		94	0	0	94	11	**105**
Director of HR, Legal & Corporate Services	**1**	91	4	0	95	11	**106**
Managing Director Growth Lancashire Limited		86	0	0	86	10	**96**

1. The government determines and funds the election fees for Returning Officers that are related to election duties for National, European and Police and Crime Commissioner Elections and these are subject to full reimbursement and paid to officers as appropriate. The fees for Local Elections are based on a County wide formula.
2. The Director of Adult Services left the Council's employment with effect from 30th June 2017. The former Director of Localities & Prevention took on the role of Director of Adults & Prevention, and the post of Director of Localities & Prevention was dis-established.
3. From February 2016 until 31st December 2017, the Director of Children's Services became shared director of both Blackburn with Darwen Borough Council and Lancashire County Council's Children Services. During this period the post holder continued to be employed by Blackburn with Darwen Council and subject to its terms and conditions of employment, therefore full costs of this post have been included in the note above.
4. The Director of Strategy & Funding (formerly Director of Growth & Prosperity) left the Council's employment with effect from 19th January 2018.

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)	1	163	0	0	163	19	**182**
Deputy Chief Executive – Denise Park	1	135	0	0	135	16	**151**
Executive Director People	2	110	0	0	110	14	**124**
Executive Director Place	3	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	4	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		84	0	0	84	10	**94**

1. The government determines and funds the election fees for Returning Officers that are related to election duties for National, European and Police and Crime Commissioner Elections and these are subject to full reimbursement and paid to officers as appropriate. The fees for Local Elections are based on a County wide formula
2. 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.
3. The Executive Director Place left the Council's employment with effect from 31st August 2016.
4. 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.

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	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**
0 to 20,000	22	27	99	58	121	85	779	632
20,001 to 40,000	3	2	16	11	19	13	521	477
40,001 to 60,000	1	1	9	2	10	3	472	142
60,001 to 80,000	0	0	2	0	2	0	140	0
80,001 to 100,000	0	0	0	0	0	0	0	0
100,001 to 150,000	0	0	2	0	2	0	245	0
Total	**26**	**30**	**128**	**71**	**154**	**101**	**2,157**	**1,251**

9 MEMBERS' ALLOWANCES

2016/17 £000		2017/18 £000
510	Allowances payable to Members	516
4	Expenses payable to Members	4
514	**Total**	**520**

10 EXTERNAL AUDIT COSTS

The Council incurred the following fees relating to external audit.

2016/17 £000		2017/18 £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	12
10	Fees incurred for other audit work undertaken by Grant Thornton	6
0	Rebate of fees from Public Sector Audit Appointments (PSAA)	(15)
128	**Total**	**106**

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.

2016/17 £000		2017/18 £000
(1,445)	Turnover	(1,369)
2,380	Expenditure	2,597
935	**(Surplus)/deficit**	**1,228**

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.

There are no such events to report at the time of publication of this document.

13 PROPERTY, PLANT AND EQUIPMENT

All operational land and buildings are revalued on a five 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 review 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. The review combines the use of national indices to model potential valuation movements over the five year valuation period, with an assessment of local market conditions and how that compares with national trends. The result of the assessment did not require 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 2017/18

	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 2017	**261,360**	**27,674**	**162,163**	**7,509**	**7,000**	**6,152**	**471,858**	**23,569**
Additions	2,382	241	4,822	0	(495)	8,134	15,084	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,498)	0	(28)	0	2,912	0	386	0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(3,768)	0	0	0	(1,730)	0	(5,498)	0
Derecognition – disposals	(287)	0	0	0	0	0	(287)	0
Assets reclassified	(8,184)	549	2,253	0	9,262	(4,499)	(619)	0
At 31 March 2018	**249,005**	**28,464**	**169,210**	**7,509**	**16,949**	**9,787**	**480,924**	**23,569**
Accumulated depreciation and impairment								
At 1 April 2017	**(20,075)**	**(12,371)**	**(26,717)**	**0**	**0**	**0**	**(59,163)**	**(3,571)**
Depreciation charge	(4,606)	(2,833)	(5,436)	0	(9)	0	(12,884)	(402)
Depreciation written out to the Revaluation Reserve	1,512	0	0	0	3	0	1,515	0
Depreciation written out to the surplus/deficit on the provision of services	803	0	0	0	717	0	1,520	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	31	0	0	0	31	0
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services	0	0	1	0	0	0	1	0
Derecognition – disposals	0	0	0	0	0	0	0	0
Assets reclassified	711	0	0	0	(711)	0	0	0
At 31 March 2018	**(21,655)**	**(15,204)**	**(32,121)**	**0**	**0**	**0**	**(68,980)**	**(3,973)**
Net book value								
At 1 April 2017	**241,285**	**15,303**	**135,446**	**7,509**	**7,000**	**6,152**	**412,695**	**19,998**
At 31 March 2018	**227,350**	**13,260**	**137,089**	**7,509**	**16,949**	**9,787**	**411,944**	**19,596**

Page 92

Property, plant and equipment - comparative 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				163	0
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 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**	**28,464**	**169,193**	**7,509**	**0**	**9,787**	**216,010**
Valued at current value (fair value for surplus assets) at:							
2017/2018	32,329	0	0	0	16,949	0	49,278
2016/2017	101,885	0	0	0	0	0	101,885
2015/2016	94,950	0	0	0	0	0	94,950
2014/2015	7,307	0	0	0	0	0	7,307
2013/2014	11,477	0	17	0	0	0	11,494
Total cost or valuation	**249,005**	**28,464**	**169,210**	**7,509**	**16,949**	**9,787**	**480,924**

Revaluation losses

For 2017/18, 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 Town Hall – following completion of a full condition survey, the valuation has been decreased to reflect to significant cost of refurbishment required in order to utilise the building more efficiently.	2,782

Surplus Assets – Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2018 and 2017 are as follows:

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2018
	£000	**£000**	**£000**	**£000**
Residential land	0	15,022	0	15,022
Office units	0	800	0	800
Retail	0	1,127	0	1,127
Total	**0**	**16,949**	**0**	**16,949**

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2017
	£000	**£000**	**£000**	**£000**
Residential land	0	7,000	0	7,000
Office units	0	0	0	0
Retail	0	0	0	0
Total	**0**	**7,000**	**0**	**7,000**

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels 1 and 2 during the year.

Valuation Techniques used to Determine Level 2 Fair Values for Surplus Assets

The fair value for the residential properties (at market rents) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

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 2017 £000		31 March 2018 £000
297,518	**Opening capital financing requirement**	**301,712**
	Capital investment	
17,853	Property, plant and equipment	15,084
477	Intangible assets	520
4,562	Revenue expenditure funded from capital under statute	3,051
22,892	**Total capital investment**	**18,655**
	Sources of finance	
(1,983)	Capital receipts – set aside to reduce net indebtedness	(760)
(10,460)	Government grants and other contributions	(13,184)
	Sums set aside from revenue:	
(800)	Direct revenue contributions	(349)
(5,455)	Minimum revenue provision (MRP) for debt repayment	(6,214)
301,712	**Closing capital financing requirement**	**299,860**
	Explanation of movement in year	
4,164	Increase / (reduction) in underlying need to borrow (unsupported by Government financial assistance)	(1,852)
4,194	**Total movement**	**(1,852)**

Capital Commitments

At 31 March 2018 the Council had entered into numerous contracts for the construction or enhancement of property, plant and equipment in 2018/19 or future years.

Contractual commitments include:

- Design, development and construction of the Newfield school - £4 million
- Single site rationalisation and construction of a two storey extension at Cedars School - £250,000

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 £485,000. These have been provided for in the 2018/19 capital programme.

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 2018 are included in reserves in the Council's Balance Sheet.

Schools on the Council's Balance Sheet

31 March 2017			31 March 2018	
Number of Schools	Value of Land and Buildings £000		Number of Schools	Value of Land and Buildings £000
20	62,001	Community schools (excluding PFI schools)	20	58,458
1	2,124	Foundation schools (excluding PFI schools)	1	2,098
2	19,998	Community and foundation schools subject to PFI contracts	2	19,596
23	**84,123**	**Total**	**23**	**80,152**

Schools off the Council's Balance Sheet

2016/17 £000		2017/18 £000
12	Academy	12
0	Foundation	0
3	Free	3
26	Voluntary aided	26
4	Voluntary controlled	4
45	**Total**	**45**

There have been no academy conversions during the financial year 2017/18.

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 2017/18. 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 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.

	Civic Regalia and Other artifacts £000	Art Collections (including public/street art) £000	Manuscripts and Books £000	Total Heritage Assets £000
Cost or valuation				
At 31 March 2017	**259**	**8,215**	**10,970**	**19,444**
Net gains/(losses) from fair value adjustments	0	0	0	0
At 31 March 2018(	**259**	**8,215**	**10,970**	**19,444**

There have been no additions or disposals during the year and the values remain unchanged from 2016/17.

Individual items valued at £25,000 or more are included at insurance valuation, which is based on market values.

Civic regalia and other artefacts

These are mainly held within the Mayor's Parlour at Blackburn Town Hall.

Manuscripts and books

A collection of publications is held by the Council's museum for their historical and cultural importance.

Art collections

These are mainly held in the Council's Museum and Turton Tower.

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:

2016/17 £000		2017/18 £000
(6)	Rental income from investment property	(6)
8	Changes in the fair value of investment property	(8)
2	**Net (gain)/loss**	**(14)**

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

2016/17 £000		2017/18 £000
225	**Balance at 1 April**	**72**
(8)	Net gains/(losses) from fair value adjustments	8
(145)	Transfer to Property, Plant & Equipment	0
72	**Balance at 31 March**	**80**

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:

2016/17 £000		2017/18 £000
	Gross carrying amount	
4,693	Balance at 1 April	3,594
477	Purchases	520
431	Assets reclassified from assets under construction	337
(2,007)	Disposals	(1,619)
3,594	**Balance at 31 March**	**2,832**
	Accumulated amortisation	
(1,785)	Balance at 1 April	(1,436)
(1,494)	Amortisation	(1,202)
2,007	Disposals	1,619
(164)	Other movements in amortisation	1
(1,436)	**Balance at 31 March**	**(1,018)**
	Net carrying amount	
2,908	Balance at 1 April	2,158
2,158	**Balance at 31 March**	**1,814**

19 LONG TERM INVESTMENTS

31 March 2017 £000		31 March 2018 £000
736	Blackburn with Darwen and Bolton Local Education Partnership	722
50	Local Capital Finance Company Plc	50
786	**Total**	**772**

20 LONG TERM DEBTORS

31 March 2017 £000		31 March 2018 £000
26,278	Shopping centre lease	26,276
1,289	Nursing/residential property charges	990
332	Loan to Lancashire County Developments Limited	347
10	Loan to Marketing Lancashire Limited (formerly Lancashire and Blackpool Tourist Board Limited)	0
4	Car loans to Council employees	7
3	Cycle scheme loans to Council employees	5
15	Other loans	1
27,931	**Total**	**27,626**

21 INVENTORIES

2016/17 £000		2017/18 £000
353	**Balance at 1 April**	**307**
1,237	Purchases	1,144
(1,262)	Recognised as an expense in the year	(1,151)
(21)	Written off / reversal of prior year write-offs	2
307	**Balance at 31 March**	**302**

22 SHORT TERM DEBTORS

31 March 2017 £000		31 March 2018 £000
656	Non-domestic rates	525
5,091	Central Government bodies	3,941
1,626	Other local authorities	1,995
1,213	NHS bodies	2,475
29	Public corporations	94
6,698	Other entities and individuals	6,579
15,313	**Total**	**15,609**

23 CASH AND CASH EQUIVALENTS

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

31 March 2017 £000		31 March 2018 £000
78	Cash held by the Council	31
4,999	Bank current accounts	6,432
9,223	Short term deposits with banks and building societies	16,222
14,300	**Total**	**22,685**
(1,771)	Bank overdraft	(4,030)
12,529	**Total**	**18,655**

24 SHORT TERM CREDITORS

31 March 2017 £000		31 March 2018 £000
(4,317)	Central Government bodies	(4,610)
(2,396)	Other local authorities	(1,056)
(932)	NHS bodies	(1,415)
0	Public corporations	0
(20,999)	Other entities and individuals	(21,009)
(28,644)	**Total**	**(28,090)**

25 PROVISIONS

	Non-domestic Rates Appeals £000	Injury and Damage Compensation Claims £000	Other Provisions £000	Total £000
Balance at 1 April 2017	**(3,099)**	**(1,050)**	**(400)**	**(4,549)**
Additional provisions made	0	(327)	0	(327)
Amounts used	1,164	249	0	1,413
Unused amounts reversed	254	0	0	254
Balance at 31 March 2018	**(1,681)**	**(1,128)**	**(400)**	**(3,209)**

Further details of the individual provisions are shown below.

31 March 2017 £000	Provision		31 March 2018 £000
(3,099)	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.	(1,681)
Injury and damage compensation claims			
(360)	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 2018 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.	(236)
(370)	Vehicle insurance claims	Provision to cover the estimated cost of vehicle insurance claims received up to 31 March 2018 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.	(518)
0	General Insurance	A new provision to cover the estimated cost of Employers / Public Liability insurance claims received up to 31 March 2018 for which settlement has not been made.	(54)
(320)	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			
(400)	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)
(4,549)	**Total**		**(3,209)**

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 2017 £000				31 March 2018 £000		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
786	13,000	**13,786**	Loans and receivables - investments (principal)	772	17,600	**18,372**
0	44	**44**	Accrued interest on the above	0	52	**52**
786	**13,044**	**13,830**	**Total investments**	**772**	**17,652**	**18,424**
0	5,348	**5,348**	Loans and receivables - cash and cash equivalents (including bank accounts)	0	10,030	**10,030**
0	0	**0**	Accrued interest on the above	0	1	**1**
0	8,950	**8,950**	Available for sale assets - cash and cash equivalents (Money Market Funds)	0	12,945	**12,945**
0	2	**2**	Accrued interest on the above	0	4	**4**
0	**14,300**	**14,300**	**Total cash and cash equivalents**	**0**	**22,980**	**22,980**
26,278	0	**26,278**	Shopping centre lease - long term debtor	26,276	0	**26,276**
1,653	7,754	**9,407**	Other trade receivables *	1,350	11,459	**12,809**
27,931	**7,754**	**35,685**	**Total trade receivables**	**27,626**	**11,459**	**39,085**
28,717	**35,098**	**63,815**	**Total financial assets**	**28,398**	**52,091**	**80,489**
** 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	*7,559*	*7,559*		*0*	*4,150*	*4,150*

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 2017 £000				31 March 2018 £000		
Long term	Short term	Total	Category	Long term	Short term	Total
(114,050)	(70,072)	**(184,122)**	Principal sum borrowed	(113,261)	(97,080)	**(210,341)**
0	(417)	**(417)**	Accrued interest	0	(2,637)	**(2,637)**
(150)	(252)	**(402)**	Effective interest rate (EIR) adjustments **	(149)	(246)	**(395)**
(114,200)	**(70,741)**	**(184,941)**	**Total borrowing**	**(113,410)**	**(99,963)**	**(213,373)**
0	(1,771)	**(1,771)**	Bank overdraft	0	(4,030)	**(4,030)**
(66,849)	(1,702)	**(68,551)**	PFI arrangements	(65,130)	(1,719)	**(66,849)**
0	(17,867)	**(17,867)**	Trade payables #	0	(20,936)	**(20,936)**
(181,049)	**(92,081)**	**(273,130)**	**Total financial liabilities**	**(178,540)**	**(126,648)**	**(305,188)**
**** 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	*(9,075)*	*(9,075)*		*0*	*(5,435)*	*(5,435)*

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.

Fair Value Disclosure

A comparison between carrying values and fair values are summarised in the following table.

31 March 2017 £000				31 March 2018 £000		
Carrying Value	Fair Value	Difference		Carrying Value	Fair Value	Difference
			Financial Assets			
26,278	49,612	**23,334**	Shopping centre lease long term debtor	26,276	52,183	**25,907**
(105,357)	(148,591)	**(43,234)**	PWLB loans	(106,769)	(144,263)	**(37,494)**
(22,250)	(33,785)	**(11,535)**	Market loans (with call options)	(21,208)	(30,036)	**(8,828)**
(278)	(278)	**0**	Other stock	(280)	(280)	**0**
(57,056)	(57,056)	**0**	Short term borrowing	(85,116)	(85,116)	**0**
(184,941)	**(239,710)**	**(54,769)**	**Total Borrowing**	**(213,373)**	**(259,695)**	**(46,322)**
(68,551)	(119,938)	**(51,387)**	PFI liabilities	(66,849)	(112,650)	**(45,801)**

The fair values provided above are all based on Fair Value Level 2 estimations, and were prepared by the Council's treasury advisers. Where no fair values are shown, any differences are viewed as immaterial.

For the shopping centre lease debtor, the £26.276 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:

2016/17					2017/18			
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
6,459	0	0	6,459	Interest on PFI payments	6,420	0	0	6,420
6,199	0	0	6,199	Interest on loans	6,294	0	0	6,294
12,658	**0**	**0**	**12,658**	**Total expense**	**12,714**	**0**	**0**	**12,714**
0	(1,446)	0	**(1,446)**	Shopping centre lease interest	0	(1,445)	0	**(1,445)**
0	(172)	(42)	**(214)**	Other interest	0	(221)	(26)	**(247)**
0	**(1,618)**	**(42)**	**(1,660)**	**Total income**	**0**	**(1,666)**	(26)	**(1,692)**
12,658	**(1,618)**	**(42)**	**10,998**	**Net (gain)/loss**	**12,714**	**(1,666)**	(26)	**11,022**

Risks arising from financial instruments

The Council's activities expose it to a variety of financial risks, and these are recognised in the Risk Register. 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 2017 £000	Investment Portfolio	31 March 2018 £000
	Short term investments	
0	Debt Management Office	3,600
12,000	Other local authorities	13,000
0	A rated banks/building societies	0
1,000	Low rated building societies	1,000
13,000	**Total short term investments**	**17,600**
	Short term deposits with banks and building societies	
8,950	AAA rated Money Market Funds	12,945
50	AA rated bank	150
25	A rated bank	2,975
50	Council's own current account bank	50
9,075	**Total short term deposits**	**16,120**

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 2017 £000			31 March 2018 £000	
Value of debt	**Provision**		**Value of debt**	**Provision**
6,497	(2,237)	Trade receivables	11,459	(3,055)

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

31 March 2017 £000	Aged of Debt	31 March 2018 £000
2,862	Less than 3 months	6,048
1,562	3 – 12 months	2,213
897	1 to 2 years	1,271
1,176	Over 2 years	1,927
6,497	**Total**	**11,459**

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 2017 £000		31 March 2018 £000
(70,741)	Under 1 year	(99,963)
(70,741)	**Total short term borrowing**	**(99,963)**
(6,564)	Maturing in 1 to 2 years	(7,349)
(4,349)	Maturing in 3 to 5 years	(3,659)
(18,108)	Maturing in 6 to 10 years	(20,232)
(85,179)	Maturing in more than 10 years	(82,170)
(114,200)	**Total long term borrowing**	**(113,410)**
(184,941)	**Total borrowing**	**(213,373)**

The Council has £15.5 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 2017/18, 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	(288)
Increased cost of borrowing	629
Impact on Comprehensive Income and Expenditure Statement	**341**

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 £33 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 2017 £000		31 March 2018 £000
(285,067)	Pension scheme liability *	(249,217)
(15,992)	Council's share of debt administered by Lancashire County Council under local Government reorganisation regulations	(15,352)
(66,849)	Building schools for the future PFI liability	(65,130)
(367,908)	**Total**	**(329,699)**

* The pension fund liability included above has been reduced from the actuarial estimate of £258.222 million to £249.217 million to reflect a £9.005 million advance payment in respect of the Council's pension deficit share. Further details on post-employment benefits are provided in Note 31.

28 PRIVATE FINANCE INITIATIVE (PFI)

The Building Schools for the Future programme included the construction and operation of four schools, across three sites, funded by way of two PFI contracts:

- Phase 1 – Pleckgate High School
- Phase 2 - Witton Park High School and Blackburn Central high School with Crosshill

Each PFI contract is for a period of 25 years with the end dates being Aug 2036 for Phase 1 and Aug 2037 for Phase 2.

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 has been approached by the PFI company's financial advisers to consider a proposal for the refinancing of Blackburn with Darwen's senior debt within the PFI deals of the two PFI agreements. This process will be on-going throughout 2018/19 and may result in the Council receiving a share of any refinancing gain in future years.

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 2018 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Pleckgate school				
Payment in 2018/19	(951)	(484)	(2,568)	(4,003)
Payment within 2 to 5 years	(3,616)	(2,697)	(9,702)	(16,015)
Payment within 6 to 10 years	(4,423)	(5,374)	(10,222)	(20,019)
Payment within 11 to 15 years	(4,992)	(7,948)	(7,079)	(20,019)
Payment within 16 to 20 years	(3,457)	(7,840)	(2,387)	(13,684)
Total Pleckgate School	**(17,439)**	**(24,343)**	**(31,958)**	**(73,740)**
Witton Park / Blackburn Central with Crosshill schools				
Payment in 2018/19	(1,405)	(1,234)	(3,392)	(6,031)
Payment within 2 to 5 years	(6,591)	(4,906)	(12,627)	(24,124)
Payment within 6 to 10 years	(7,443)	(9,439)	(13,273)	(30,155)
Payment within 11 to 15 years	(8,769)	(12,142)	(9,242)	(30,153)
Payment within 16 to 20 years	(7,970)	(14,784)	(3,955)	(26,709)
Total Witton Park/Blackburn Central with Crosshill schools	**(32,178)**	**(42,505)**	**(42,489)**	**(117,172)**
Total	**(49,617)**	**(66,848)**	**(74,447)**	**(190,912)**

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 31 March 2017	**(24,909)**	**(43,643)**	**(68,552)**
Payments during the year	566	1,138	1,704
Balance outstanding at 31 March 2018	**(24,343)**	**(42,505)**	**(66,848)**

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 2017 restated £000		31 March 2018 £000
2,106	Not later than one year	1,467
7,392	Later than one year and not later than 5 years	4,841
19,599	Later than 5 years	18,634
29,097	**Total**	**24,942**

The comparative figures above have been restated to reflect the inclusion of an additional asset which was omitted in error from the 2016/17 statement of accounts.

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

31 March 2017 £000		31 March 2018 £000
1,363	Minimum lease payments	1,564
425	Contingent rents	115
1,788	**Total**	**1,679**

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 124 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 2017 £000		31 March 2018 £000
26,278	Finance lease debtor (net present value of minimum lease payments)	26,276
156,044	Unearned finance income	154,599
182,322	**Gross investment in the lease**	**180,875**

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 2017			31 March 2018	
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	8
175,087	26,269	Later than 5 years	173,640	26,266
182,322	**26,278**	**Total**	**180,875**	**26,276**

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 2017 £000		31 March 2018 £000
(2,196)	Not later than one year	(2,494)
(6,123)	Later than one year and not later than 5 years	(6,421)
(55,005)	Later than 5 years	(55,079)
(63,324)	**Total**	**(63,994)**

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 2017/18 income generated from leases was £3,351,000 with £273,600 of contingent rents receivable by the Council (£3,464,000 and £812,300 respectively in 2016/17).

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 2016/17 and 2017/18.

	Balance at 31 March 2016 £000	Transfers out 2016/17 £000	Transfers in 2016/17 £000	Balance at 31 March 2017 £000	Transfers out 2017/18 £000	Transfers in 2017/18 £000	Balance at 31 March 2018 £000
Earmarked reserves							
Reserves held for discretionary use by the Council							
ICT developments	**(559)**	0	0	**(559)**	559	0	**0**
Welfare, council tax and business rate reforms	**(1,312)**	1,070	(26)	**(268)**	0	0	**(268)**
Investments in assets and infrastructure	**(1,893)**	703	0	**(1,190)**	21	0	**(1,169)**
Other resources and transformation projects	**(387)**	189	(100)	**(298)**	113	0	**(185)**
Support for people services	**(1,577)**	542	(1,171)	**(2,206)**	3,804	(4,522)	**(2,924)**
Town centre, special events and economic development	**(1,888)**	1,342	0	**(546)**	177	(250)	**(619)**
Invest to save projects	**(413)**	370	0	**(43)**	0	0	**(43)**
Contingent sums to support future downsizing and transformation	**(6,299)**	3,502	(3,025)	**(5,822)**	4,436	(2,382)	**(3,768)**
Amounts carried forward in respect of unspent grants and contributions	**(2,476)**	2,307	(715)	**(884)**	716	(1,670)	**(1,838)**
Other amounts committed in future years budgets	**(100)**	100	(233)	**(233)**	233	(203)	**(203)**
Reserves held for specified non-discretionary purposes	**(1,401)**	71	(496)	**(1,826)**	371	(635)	**(2,090)**
Total earmarked reserves for discretionary purposes	**(18,305)**	**10,196**	**(5,766)**	**(13,875)**	**10,430**	**(9,662)**	**(13,107)**
Details of other earmarked reserves							
Reserves held in respect of joint arrangements and charitable bodies	**(363)**	25	(46)	**(384)**	8	(35)	**(411)**
Reserves held in relation to schools	**(11,455)**	2,000	(1,189)	**(10,644)**	1,913	0	**(8,731)**
LMS schools balances	**(8,305)**	2,052	0	**(6,253)**	601	0	**(5,652)**
Total of non-discretionary reserves	**(20,123)**	**4,077**	**(1,235)**	**(17,281)**	**2,522**	**(35)**	**(14,794)**
Total earmarked reserves	**(38,428)**	**14,273**	**(7,001)**	**(31,156)**	**12,952**	**(9,697)**	**(27,901)**
Unallocated reserves	**(5,067)**	**5,717**	**(6,839)**	**(6,189)**	**2,529**	**(2,395)**	**(6,055)**
Capital receipts reserve	**0**	**1,983**	**(1,983)**	**0**	**760**	**(760)**	**0**
Capital grants unapplied	**(8,985)**	**10,460**	**(13,524)**	**(12,049)**	**13,184**	**(8,185)**	**(7,050)**
Total Council usable reserves	**(52,480)**	**32,433**	**(29,347)**	**(49,394)**	**29,425**	**(21,037)**	**(41,006)**

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 2017 £000		31 March 2018 £000
(83,913)	Revaluation Reserve	(84,809)
(49,527)	Capital Adjustment Account	(49,383)
1,981	Financial Instruments Adjustment Account	1,925
(26,278)	Deferred Capital Receipts Reserve	(26,276)
285,067	Pensions Reserve	258,222
1,151	Collection Fund Adjustment Account	(241)
2,676	Accumulated Absences Adjustment Account	2,041
131,157	**Total**	**101,479**

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.

2016/17 £000		2017/18 £000
(85,722)	**Balance at 1 April**	**(83,913)**
(2,853)	Upward revaluation of assets	(3,684)
3,308	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	1,752
455	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(1,932)**
925	Difference between fair value depreciation and historical cost depreciation	858
429	Accumulated gains on assets sold or scrapped	178
1,354	**Amount written off to the capital adjustment account**	**1,036**
(83,913)	**Balance at 31 March**	**(84,809)**

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.

2016/17 £000		2017/18 £000
(57,314)	**Balance at 1 April**	**(49,527)**
	Reversal of items relating to capital expenditure charged to the Comprehensive Income and Expenditure Statement	
16,842	Charges for depreciation and impairment of non-current assets	12,882
2,728	Revaluation losses on property, plant and equipment	3,978
1,494	Amortisation of intangible assets	1,201
4,572	Revenue expenditure funded from capital under statute	3,333
2,195	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal calculation	301
(1,354)	Adjusting amount written out of the Revaluation Reserve	(1,036)
26,477	**Net written out amount of the cost of non-current assets consumed in the year**	**20,659**
	Capital financing applied in the year	
(1,983)	Use of the capital receipts reserve to finance new capital expenditure or set aside to reduce the net indebtedness of the Council	(760)
(6,628)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(5,903)
(3,832)	Application of grants to capital financing from the Capital Grants Unapplied Account	(7,281)
(5,455)	Statutory provision for the financing of capital investment charged against the General Fund	(6,214)
(800)	Capital expenditure charged against the General Fund	(349)
8	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	(8)
(49,527)	**Balance at 31 March**	**(49,383)**

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.

2016/17 £000		2017/18 £000
2,032	**Balance at 1 April**	**1,981**
(29)	Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	(33)
	Effective interest rate adjustments in respect of:	
(15)	Soft loans	(15)
(7)	Stepped loan rates	(8)
(51)	**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**	**(56)**
1,981	**Balance at 31 March**	**1,925**

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.

2016/17 £000		2017/18 £000
(26,280)	**Balance at 1 April**	**(26,278)**
2	Transfer to the capital receipts reserve upon receipt of cash	2
(26,278)	**Balance at 31 March**	**(26,276)**

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.

2016/17 £000		2017/18 £000
204,911	**Balance at 1 April**	**285,067**
71,374	Remeasurement of the net defined benefit liability	(41,035)
8,782	Amount by which pension costs calculated in accordance with IAS19 are different from the contributions due under the pension scheme regulations.	14,190
285,067	**Balance at 31 March**	**258,222**

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.

2016/7 £000		2017/18 £000
168	**Balance at 1 April**	**1,151**
983	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	(1,392)
1,151	**Balance at 31 March**	**(241)**

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.

2016/17 £000		2017/18 £000
2,538	**Balance at 1 April**	**2,676**
(2,538)	Settlement of cancellation of accrual made at the end of the preceding year	(2,676)
2,676	Amounts accrued at the end of the current year	2,041
138	**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**	**(635)**
2,676	**Balance at 31 March**	**2,041**

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 2017/18, the Council paid £5,788,678 (£5,821,968 in 2016/17) to the Teachers Pensions Agency in respect of teachers' retirement benefits, representing 16.48% (16.48% in 2016/17) 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 2017/18, the Council paid £76,245 (£82,460 in 2016/17) to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.38% (14.30% in 2016/17) 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.

Early payment of 3 years LGPS deficit lump sum in April 2017

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid. As the full amount is due at the point of the triennial valuation each employer pays the Pension Fund a rate of "interest" for allowing payment over a longer period to compensate the Fund for investment opportunities which it has forgone. Paying in advance of this schedule enables a gross saving due to the avoidance of these "interest" payments. This is then netted off against the interest that could have been earned by the Council placing this money on deposit.

In previous years the Council made monthly payments to the Pension Fund in respect of its proportion of the Fund deficit, in addition to monthly employer contributions in relation to current staff who are members of the LGPS. In April 2017, a lump sum early payment of the full 3 year deficit amount was made by the Council amounting to £13.508 million.

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 s ame 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	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	14,493	19,337	0	0
Past service cost	0	0	0	0
(Gain)/loss from settlements and curtailments	1,020	523	0	0
Financing and Investment Income and Expenditure				
Net Interest expense and administration costs	7,197	6,783	249	190
Total post-employment benefit charged to the surplus or deficit on the provision of services	**22,710**	**26,643**	**249**	**190**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Remeasurement - assets	(84,621)	(6,218)	0	0
Remeasurement - liabilities				
- Experience (gain) / loss	(17,339)	0	(80)	0
- (Gains)/losses on financial assumptions	177,194	(34,649)	1,168	(168)
- (Gains)/losses on demographic assumptions	(4,872)	0	(76)	0
Total re-measurement recognised in Other Comprehensive Income	**70,362**	**(40,867)**	**1,012**	**(168)**
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**93,072**	**(14,224)**	**1,261**	**22**

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	(9,127)	(14,569)	345	379
Actual amount charged against the General Fund balance for pensions in the year				
Employers' contributions payable to the scheme	**13,583**	**12,074**		
Retirement benefits payable to pensioners			**594**	**569**

Pensions assets and liabilities recognised in the Balance Sheet

Of the lump sum early payment of £13.508 million made by the Council in April 2017, only £4.503 million was included in the 2017/18 accounts, with the remaining £9.005 million being offset against the Pension scheme net liability in the Council's Balance Sheet. The Pension scheme net liability at 31st March 2018 as assessed by the Fund Actuary was £258.222 million (as detailed in the tables below), however, the corresponding amount included within the Council's Balance Sheet has been reduced by the £9.005 million advance payment resulting in a reported Pension scheme liability of £249.217 million (see Note 27 *Other Long Term Liabilities*).

Prior to this adjustment, 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	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Present value of the defined benefit obligation	(837,735)	(827,708)	(7,878)	(7,331)
Fair value of plan assets	560,546	576,817	0	0
Net liability arising from defined benefit obligation	**(277,189)**	**(250,891)**	**(7,878)**	**(7,331)**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	**(659,067)**	**(837, 735)**	**(7,211)**	**(7,878)**
Current service cost	(14,493)	(19,337)	0	0
Interest cost	(23,451)	(20,744)	(249)	(190)
Contributions by scheme participants	(4,167)	(3,615)	0	0
Remeasurement - liabilities				
- Experience (gain) / loss	17,339	0	80	0
- (Gains)/losses on financial assumptions	(177,194)	34,649	(1,168)	168
- (Gains)/losses on demographic assumptions	4,872	0	76	0
Past service (cost)/gain	0	0	0	0
(Losses)/gains on curtailment	(1,020)	(523)	0	0
Liabilities extinguished on settlements	0	0	0	0
Benefits paid	19,446	19,597	594	569
Closing balance at 31 March	**(837, 735)**	**(827, 708)**	**(7,878)**	**(7,331)**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	**461,367**	**560,546**	**0**	**0**
Interest income	16,579	14,244	0	0
Remeasurement (gains) / losses - assets	84,621	6,218	0	0
Settlements	0	0	0	0
Contributions from employer	13,583	12,074	594	569
Contributions from employees into the scheme	4,167	3,615	0	0
Benefits paid	(19,446)	(19,597)	(594)	(569)
Other	(325)	(283)	0	0
Closing balance at 31 March	**560,546**	**576,817**	**0**	**0**

Local Government Pension Scheme assets comprised:

31 March 2017 £000	Asset category	Quoted in active markets (Y/N)	31 March 2018 £000
5,818	**Cash and cash equivalents etc.**	N	**(2,413)**
	Bonds (by sector):		
2,043	UK Corporate	Y	3,288
7,162	Overseas Corporate	N	6,850
11,095	UK Government	Y	13,763
	Overseas Government	N	557
20,300	**Sub-total bonds**		**24,458**
	Property (by type):		
15,258	Retail	N	15,862
34,124	Commercial	N	38,383
49,382	**Sub-total property**		**54,245**
	Private equity:		
6,355	UK	N	0
29,723	Overseas	N	41,870
36,078	**Sub-total private equity**		**41,870**
	Other investment funds:		
67,638	Infrastructure	N	73,097
7,903	Indirect Property Funds	N	8,760
125,610	Credit Funds	N	106,284
0	Pooled Fixed Income	N	14,231
247,817	Overseas Pooled Equity Funds	N	256,285
448,968	**Sub-total other investment funds**		**458,657**
560,546	**TOTAL ASSETS**		**576,817**

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:

2016/17		2017/18
Mortality assumptions		
Longevity at 65 for current pensioners		
22.6	Male	22.7
25.2	Female	25.4
Longevity at 65 for future pensioners		
24.9	Male	25.0
27.9	Female	28.0
Financial assumptions		
2.3%	Rate of CPI inflation	2.1%
3.8%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions (payment / deferment)	2.2%
2.5%	Rate for discounting scheme liabilities	2.6%

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 2018	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	+ 16,307	+ 378	+ 431
Rate of inflation - increase by 0.1%	+ 15,475	+ 554	+ 409
Rate of increase in salaries – increase by 0.1%	+ 2,258	0	+ 66
Rate for discounting scheme liabilities – increase by 0.1%	- 15,194	- 531	- 159

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 £12.926 million to the scheme in 2018/19.

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 2017 £000		31 March 2018 £000
1,656	Interest received	1,684
(12,637)	Interest paid	(10,231)

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

31 March 2017 £000		31 March 2018 £000
10,306	Depreciation	12,884
9,264	Impairment and downward valuations	3,976
1,494	Amortisation	1,201
(8,831)	Increase/(decrease) in creditors	1,401
1,132	(Increase)/decrease in debtors	(185)
46	(Increase)/decrease in inventories	5
8,782	Movement in pension liability	5,185

2,195	Carrying amount of non-current assets, non-current assets held for sale, sold or derecognised	301
650	Other non-cash items charged to the surplus or deficit on the provision of services	(1,102)
25,038	**Total**	**23,666**

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

31 March 2017 £000		31 March 2018 £000
(1,983)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(760)
(13,524)	Any other items for which the cash effects are investing or financing cash flows	(8,185)
(15,507)	**Total**	**(8,945)**

Investing activities

31 March 2017 £000		31 March 2018 £000
(18,331)	Purchase of property, plant and equipment, investment property and intangible assets	(15,604)
(11,000)	Purchase of short term and long term investments	(4,600)
1,985	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	762
9	Proceeds from short term and long term investments	14
13,804	Other receipts from investing activities	8,508
(13,533)	**Net cash flows from investing activities**	**(10,920)**

Financing activities

31 March 2017 £000		31 March 2018 £000
57,000	Cash receipts of short term and long term borrowing	85,000
0	Other receipts from financing activities	0
(1,543)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(1,703)
(26,728)	Repayment of short term and long term borrowing	(59,421)
(168)	Other payments for financing activities	126
28,561	**Net cash flows from financing activities**	**24,002**

33 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. 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). Grant income from Government departments is shown in Note 7.

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 £11.169 million revenue ring fenced grant in 2017/18 (£10.972 million in 2016/17) towards the Better Care Fund (BCF), of which £6.214 million expenditure (£5.844 million in 2016/17) was incurred by the CCG on health related initiatives and the remaining £4.955 million (£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 £15.2 million of Public Health Grant in 2017/18 (£15.6 million 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.

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% (£84,880) and Blackburn with Darwen contributing 64.5% (£154,218) in 2017/18. In 2016/17 the corresponding figures were 35.5% (£86,324) and 64.5% (£156,842) respectively.

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 2017/18 is shown in Note 9.

Details of Members' interests are recorded in the Register of Members' Interests, which is open to public inspection. During 2017/18, 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 £90,400 (£219,800 in 2016/17) were made to Transdev Lancashire United, mostly for bus service costs, bus fares and bus pass charges (£10,045 outstanding at year end).
- Three members were either employed by or were on the governing body of Blackburn College, to whom the Council paid £287,900 (£135,900 in 2016/17) towards the jointly funded town centre leisure facility and £241,400 (£151,300 in 2016/17) in relation to academic fees for which the Council was liable (£4,715 outstanding at year end).
- One member was employed by the University of Central Lancashire, to whom the Council paid £52,200 (£54,500 in 2016/17) in relation to course fees for Council staff (£33,570 outstanding at year end).
- One member was employed by Lancashire County Council, to whom the Council paid a total of £3.1 million (£9.6 million in 2016/17) in respect of pensioner travel concessions, education provision and grants for museums and schools (£2,346 in outstanding at year end).
- Also, one member is a Governor and Director of Witton Park Academy, which received £143,100 (£183,100 in 2016/17) 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.

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 2017/18 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 Limited 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. This arrangement came to an end in April 2018. Another Capita officer continues to work 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.

Interests in companies and other entities

The Council has financial interests and related party transactions with the following companies.

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 2017/18 to the Blackburn with Darwen and Bolton Local Education Partnership Limited amounted to £16.015 million (£13.43 million in 2016/17).

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 2017/18 the company continued to deliver a Gateway Service to support businesses throughout Lancashire, Blackpool and Blackburn with Darwen, and provided £198,000 in funding to assist business growth.

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.

Entities controlled or significantly influenced by the Council

In June 2016 the Council appointed Capita Limited as a strategic partner to deliver a multi-disciplinary offering, including Property, Highways and Transport services. The contract is for 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 Capita Limited during 2017/18 amounted to £7.162 million (5.89 million in 2016/17). 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 payments in respect of the commissioning of services under either a Service Level Agreement or contractual agreement totalling £544,387 to six organisations (Families, Health & Wellbeing Consortium, Tobacco Free Futures, Alcohol Concern, Council for Voluntary Service (CVS), Care Network and Age Concern) during the year where the amounts concerned provided a significant proportion of those organisations' income. Similar payments totalling £238,748 were made in 2016/17. In these cases, there is a presumption that there is substantial reliance upon such income 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 three 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 final case involves a dispute between three Clinical Commissioning Groups (CCGs) over the responsibility for the social care costs for an individual service user. Legal services have been involved in this case and have been pursuing recovery of the costs for four years.

The total amount to be recovered in respect of the three service users amounts to £681,000 as at end of March 2018.

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 2018 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 2017/18

	Income £	Expenditure £	Assets £	Liabilities £
Funds/bequests for which Blackburn with Darwen Borough Council acts as sole trustee:				
Garstang Lecture Fund	(344)	0	(37,997)	0
Henrietta Kenyon Bequest	(274)	0	(16,555)	0
Funds/bequests for which Blackburn with Darwen Borough Council acts as joint trustee:				
Borough of Blackburn Common Good Trust	(2)	0	(23,649)	0
Poors Land Charity	0	0	(3,338)	0
Funds/bequests which Blackburn with Darwen Borough Council administers:				
Harriet Holt	0	0	(7,739)	0
Total	**(620)**	**0**	**(89,278)**	**0**

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**

Other third party funds

31 March 2017 £		31 March 2018 £
(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)
(53,660)	**Net interest**	**(53,660)**

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT

2016/17				2017/18		
Non-domestic rates	Council tax	Total		Non-domestic rates	Council tax	Total
£000	**£000**	**£000**	**Income**	**£000**	**£000**	**£000**
	(52,793)	(52,793)	Council tax receivable (net of benefits, discounts for prompt payment and transitional relief)		(55,761)	(55,761)
(51,411)	0	(51,411)	Non-domestic rates receivable (net of discretionary and mandatory reliefs)	(47,254)	0	(47,254)
			Contribution towards previous year's Collection Fund deficit			
0	0	0	- Central Government	(454)	0	(454)
0	(57)	(57)	- Blackburn with Darwen Borough Council	(444)	0	(444)
0	(7)	(7)	- Police & Crime Commissioner for Lancashire	0	0	0
0	(3)	(3)	- Lancashire Combined Fire Authority	(9)	0	(9)
0	**(67)**	**(67)**	**Total contribution to previous year's Collection Fund deficit**	**(907)**	**0**	**(907)**
(51,411)	**(52,860)**	**(104,271)**	**Total income**	**(48,161)**	**(55,761)**	**(103,922)**
			Expenditure			
			Precepts and demands from major preceptors and the Council (Council tax)			
0	44,079	44,079	- Blackburn with Darwen Borough Council	0	47,058	47,058
0	5,409	5,409	- Lancashire Police Authority	0	5,611	5,611
0	2,184	2,184	- Lancashire Combined Fire Authority	0	2,221	2,221
0	**51,672**	**51,672**	**Total council tax precepts**	**0**	**54,890**	**54,890**
			Shares of non-domestic rating income to major preceptors and the Council (billing authority)			
22,928	0	22,928	- Blackburn with Darwen Borough Council	19,281	0	19,281
468	0	468	- Lancashire Combined Fire Authority	393	0	393
23,396	**0**	**23,396**	**Total non-domestic rates precepts**	**19,674**	**0**	**19,674**
23,396	0	23,396	Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to Central Government	19,674	0	19,674
93	0	93	Transitional Protection Payments payable	5,233	0	5,233
5,073	1,391	6,464	Impairment of debt/appeals	(355)	1,260	905
255	0	255	Charge to General Fund for allowable collection costs	248	0	248
			Contribution towards previous year's Collection Fund surplus			
424	0	424	- Central Government	0	0	0
416	0	416	- Blackburn with Darwen Borough Council	0	81	81

0	0	0	- Police & Crime Commissioner for Lancashire	0	10	10
8	0	8	- Lancashire Combined Fire Authority	0	4	4
53,061	**53,063**	**106,124**	**Total expenditure**	**44,474**	**56,245**	**100,719**
1,650	203	1,853	**Movement on fund balance**	**(3,687)**	**484**	**(3,203)**
467	**(71)**	**396**	**Fund balance brought forward**	**2,117**	**132**	**2,249**
1,650	203	1,853	Movement on fund balance	(3,687)	484	(3,203)
2,117	**132**	**2,249**	**Fund balance carried forward**	**(1,570)**	**616**	**(954)**

Allocation of Collection Fund balance

31 March 2017			31 March 2018	
Non-domestic rates £000	Council tax £000	(Surplus)/deficit carried forward	Non-domestic rates £000	Council tax £000
		Allocated to:		
1,037	113	Blackburn with Darwen Borough Council	(769)	528
0	14	Police & Crime Commissioner for Lancashire	0	63
21	5	Lancashire Combined Fire Authority	(16)	25
1,059	0	Central Government	(785)	0
2,117	**132**	**Total**	**(1,570)**	**616**

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 2017/18 the non-domestic rating multiplier was 47.9p (49.7p for 2016/17), which was made up of a small business rating multiplier of 46.6p plus a supplement of 1.3p. The total non-domestic rateable value at 31 March 2018 was £119,238,375 (£128, 856,802 at 31 March 2017). The reduction followed a full revaluation of business rates properties nationally and the issue of a new rating list (the 2017 list) by the Valuation Office Agency with effect from 1 April 2017.

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 2017/18 the calculation of the tax base for council tax setting purposes was based on a total of 60,605 (60,878 in 2016/17) 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 43,373 chargeable dwellings or 34,717 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	22,072	14,707
B	7,378	5,739
C	6,984	6,208
D	3,831	3,831
E	1,823	2,228
F	695	1,004
G	535	891
H	55	109
Total	**43,373**	**34,717**

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

The Council is required to disclose the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2018 but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2018/19 Code will introduce the following amendments:

IFRS 9 *Financial Instruments*

IFRS 9 replaces International Accounting Standard (IAS) 39 - *Financial instruments: recognition and measurement*. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The change will result in more investments classified as 'fair value though profit and loss' where any gains or losses will impact on the general fund of the Council. Previously any changes in the fair value of these investments were only recognised in the general fund when the asset was sold. Additionally, the potential losses on investments are also to be charged to the revenue account in case actual losses are incurred in the future.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 11 – *Construction contracts and IAS 18 – Revenue and related interpretations*. The objective is to provide useful information to users of the financial statements regarding the nature, amount, timing and uncertainty of revenue from contracts as revenue is only recognised as and when the performance obligations of the contract are satisfied.

The impact for local authorities is the requirement to recognise revenue from contracts to reflect the transfer of goods or services to customers and the amount to which the authority expects to be entitled for that transfer. It excludes leases, financial instruments, insurance contracts, council tax and non-domestic rates income.

Amendments to IAS 12 Income Taxes: *Recognition of Deferred Tax Assets for Unrealised Losses*

This applies to deferred tax assets related to debt instruments measured at fair value and is not applicable to the Council’s debt arrangements.

Amendments to IAS 7 *Statement of Cash Flows:* Disclosure Initiative

The amendments require additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 2018 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.	The total gross valuation of PPE assets at 31 March 2018 is £480.9 million (see note 13 for further analysis). 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	Whilst total depreciation/amortisation for 2017/18 was material at £14.1 million (see Notes 13 & 18) there were no material depreciation charges for individual assets with the highest depreciation charge being £687,800. For property assets, since useful lives are estimated by an expert based on professional guidance, the scope

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.	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 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.	Although the total of provisions for likely bad debts (£14.6 million) is material in relation to the total of short term debtors in the Council's Balance Sheet (£30.2 million), the year on year assessments based on aged 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 22.
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%)	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 insurance 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 (£3.209 million at 31 March 2018 and £4.549 million at 31 March 2017). See 25 Note for details.

of the provision.	
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. See Note 31 for further details.
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.

GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the financial year 2017/18 and its position at the year-end of 31 March 2018. 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 2017/18 (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: • Understandability • Relevance • Reliability • Comparability	Revenue accounting concepts: • 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 those non-current assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge or culture. These assets have an indeterminate life and are subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

They are recognised and measured largely in accordance with the Council’s accounting policies on property, plant and equipment although valuation of the Council's heritage assets has included a degree of estimation.

With respect to the Council's collection of art, books and manuscripts, civic regalia and other artefacts, 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 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 or the cost of obtaining the information outweighs the benefit to the users of the financial statements.

Historic 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.

The museum recognises its responsibility to work within the parameters of the Museum Association Code of Ethics when considering acquisition and disposal. If an item becomes unsuitable for the collections it may be transferred to a more suitable venue, which is likely to be another museum or gallery. There is a process for removing items from a Museum’s collection which is very controlled and specific. The guiding principal for this is the Disposal Digest put together by the Museums Association and available on their web site.

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 and community assets - depreciated historical cost
- Assets under construction - 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 Deputy Chief Executive – 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 2017/18 included:

- Complete review and refresh of the Council's Constitution following the Boundary Commission's recommendations for the Blackburn with Darwen Unitary Authority, including:
    - Revised political arrangements;
    - Revised Overview and Scrutiny arrangements; and
    - Rewrite and update of the Code of Corporate Governance.
- 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, including work to ensure compliance with the requirements of the General Data Protection Regulations.
- 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.
- Ongoing use of the 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.
- Annual Audit & Governance Committee self-assessment arrangements to evaluate its effectiveness.
- The ongoing formalised, structured member training programme.
- The Audit & Governance Committee 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 2018 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 the people of Blackburn with Darwen including the challenges and opportunities it faced as an organisation and borough at that time, as well as responding to issues that residents identified, focusing on what is needed to achieve the identified 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 prior to being taken to, six monthly challenge meetings, at quarter 2 (half year reporting) and quarter 4 (year-end reporting) with directors from Resources, People and Place, the Deputy Chief Executive and a strategy & funding team officer.

The challenge meetings provide a robust integrated performance challenge framework that focuses on identifying key issues and cross-cutting problems from the Corporate Plan performance metrics, Management Accountabilities Framework (MAF) dashboard reports and HR issues, such as sickness and Health & Safety, are also challenged for all portfolios. Highlighted issues are discussed fully and remedial actions agreed.

Priority issues are highlighted for progression to executive team prior to being included in the Executive Board performance reports which are challenged at Policy Development Sessions (PDS) by the leader and executive members prior to final overall performance reporting and challenge at Executive Board or Policy Council.

The Medium Term Financial Strategy (MTFS) is reviewed at Finance Council, and builds upon the priorities agreed at Policy Council and identified within the Corporate Plan.

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 achieves 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 strategy & funding 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 strategy & funding 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 May 2017 to reflect the resolutions/decisions made at Full Council since December 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 to reflect the new composition of the Council following the Boundary Review.

The Council has adopted the Executive and Leader model. The Council's Constitution sets out the relative roles and responsibilities of Executive and, Officers and Committees of the Council. 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 decisions 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 but it also involves other significant partnership projects. The strategy & funding team produce an Annual Significant Partnerships Governance checklist which is reviewed and audited by internal audit prior to the final report being taken to Audit & Governance Committee. Governance arrangements are also 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.

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 and staff. 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 is 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 2017 following a review of the Constitution. The Monitoring Officer also holds and maintains a record 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 changes in national reporting arrangements and implementation of new local arrangements (such as electronic file management).

   The Policy was endorsed by Audit & Governance 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 existing data quality arrangements.

   Over the course of the year the Council has continued to carry out and record equality analysis and impact assessments as a key stage in the decision making process.

   The Council revised its Equality Impact Assessment (EIA) Toolkit and reviewed its decision-making processes in 2016 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 and in line with legislative requirements.

   Senior Management Teams (SMT's) and Elected Members within their respective service areas are 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 for the higher priority areas identified in the annual Audit and Assurance Plan, which is approved by the Audit & Governance Committee at its meeting in April each year. 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. 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 introduced a new Financial Management System from 1st April 2017, this has produced working efficiencies, cost savings and facilitated 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. The corporate exercise in 2017 was Business Continuity testing ICT failure and the corporate exercise in

2018 tested the emergency response to a prolonged emergency testing business and personal resilience. All departmental plans are also tested during the exercises, with any actions required identified and reported to Management Board. The Civil Contingencies Service is currently working through a two year quality assurance audit programme, to review all business continuity plans to identify gaps in knowledge, training and update plans. This programme will end in 2019. The Civil Contingencies Service also successfully presented to Scrutiny Committee in September 2017.

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 reviewed in October 2017 and the system of safety procedural documents outline the arrangements in place to meet the Council's statutory duties.

Face to face training courses for employees are available on an ad hoc basis and these are agreed with departmental managers, and are available on request. E-learning safety packages are freely available to all Council employees via the 'Me Learning' portal.

A rolling health and safety audit programme is in place for the Council. Service Level Agreements are offered to schools across the Borough for a health and safety service. Quarterly compliance checks are emailed to Directors to help support a culture of safety in their area of work.

The organisation has improved the reporting of accidents, incidents and near misses with an intranet based reporting system. This has improved reporting levels as well as tracking that steps are taken by managers to reduce risks and learn from incidents. Statistics are reported at the Health and Safety Consultative Committee.

The trend in RIDDOR reportable accidents is at a low level with 8 reported in 2017/18. None of the RIDDORS have highlighted any major cause for concern, investigations and subsequent actions have been implemented where required.

There was a significant increase in near misses reported and investigated in the second half of the year following targeted work from the health, safety and wellbeing team in the HR Service.

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 the fraud and corruption risks identified 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 2018/19 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.

During the year, the Council also commenced implementing its digital vision for the Borough. The work on this area is monitored by the Digital Programme Board. This vision sets out our approach to addressing the challenges of delivering technology across the organisation and ensuring that the maximum benefit is derived for the Council, its workforce, customers and partners.

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 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 & Governance 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 Governance.

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.

The Audit & Governance Committee has continued to monitor its own effectiveness against the criteria outlined in the CIPFA Audit Committees Practical Guidance for Local Authorities and Police (2013 Edition). The overall results reported to the Committee in January 2018 showed that there is a strong belief by its members that the Committee is operating effectively.

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.

The General Data Protection Regulations (GDPR) Mandatory Information Asset Register is complete in order to reflect the new requirements in the GDPR to have detailed records of all information assets including how we share those assets and who we share them with. The Records of Processing Activity (ROPA) is operational in that all the data we have captured so far is uploaded.

The datashare website has been operational for just over 3 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 2018/2019. Discussions have taken place 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. The Corporate and departmental risk registers have been updated to include known GDPR risks. As the project progresses and the Gap analysis is updated, IG will update the risk register to reflect any amendments.

The IG team continue to provide advice, guidance and assistance in the relevant areas of legislation, have an appropriate Information Security Examinations Board qualification 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. A training needs assessment is carried out following Council elections. Following the 2018/19 elections the number of councillors will reduce from 64 to 51. 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 these officers have the required knowledge, skills and experience to deal with the public sector reform agendas. Training and development needs will be considered in annual appraisals.

19. **Establish clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.**
As well as a constantly updated online version of The Shuttle a hard copy called the Shuttle Extra is now 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.

A key commitment of the Corporate Plan is "Your Call", where the Council is committed to working together with residents; businesses and partners, to develop a 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 the 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. As part of this agenda the Council is the accountable body for the 'One Public Estate Programme' within Lancashire.

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 2017 following an audit review. The Significant Partnerships Register is in the process of being updated and will be taken to Audit & Governance Committee upon completion. The register is updated on an annual basis 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, including the Council's Growth Programme. These arrangements are due to end in June 2018.

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	2016/17 Issue	2017/18 Action taken
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..	Now in the second year of the new partnership which started on 1 July 2016 and we are ensuring completion of all the agreed contract management arrangements to enable a review of the governance processes to ensure they are fit for purpose. Arrangements in the first year generally worked well although some late submissions have been followed up to ensure full completion. The Operational Board and Strategic Partnership Board are meeting monthly plus the full Partnership Board with elected Members meets regularly and governance issues are discussed with agreed actions monitored.
2 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 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.	Through the course of 2017/18 the portfolio continued to face significant pressures in the area of commissioned placements budgets due to increased activity and cost of individual care packages. As reported, the majority of these pressures were mitigated by agreed allocation of iBCF funding, transfers from the social care demand reserve, and a transfer from contingency held for Adults Commissioning inflationary cost pressures. The net outturn position for the portfolio is an underspend compared to final monitoring. This is subject to final approval. The demand pressures in the commissioning placement budgets are expected to continue into 2018/2019. There are good processes in place for monitoring and managing budgets. Monthly strategic budget meetings are continuing. A dashboard is being developed as an early warning system to pull together trends, activity, budget, cost and impact. Commissioning spend is scrutinised via the Mosaic approval process and demand management strategies are being applied.

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.	Throughout 2017/18 the portfolio reported a number of demand led pressures, particularly surrounding the commissioned placements and special guardianship order budgets. These budgets were uplifted during the financial year in order to meet the rising demand and as a result the portfolio will be reporting a small total overspend. These pressures are expected to continue into 2018/2019.
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 (GDPR).	Significant work has been undertaken during 2017/18 to ensure the Council is prepared for the introduction of GDPR in May 2018. This includes: • The GDPR Mandatory Information Asset Register is complete and the Records of Processing Activity (ROPA) is operational in that all the data we have captured so far is uploaded. • The Primary Privacy Notice (PPN) will be uploaded in May. It has been determined that the PPN is of sufficient enough quality to demonstrate that the most basic of processing for standard activities across the Council will comply with the transparency requirements under the GDPR. • Service Specific Privacy Notices (SSPN's) will be uploaded alongside the PPN. These notices will explain in further detail, the arrangements for the processing of special category and other significant data sets that warrant more assurance from our service users. • New Data Protection Training content will be rolled out by the beginning of May. • The procurement team have issued notifications to all personal data processors. Some have been issued with contract addendums to replace. • Mandatory Policies, procedures and guidance documents are in the process of being created/refreshed. The main areas of focus, where there will be a significant refresh or creation of new policy are in the following areas: o Data Protection Policy (Refresh). o Data Protection Impact Assessment Policy/Procedure (New). o Information Security Policy (Refresh). o Data Protection Training Policy (New). o Data Breach Reporting Procedure (Refresh.) o Subject Access Request Procedure (New). o Privacy Notice (Refresh)

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 each 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 and revised as part of the new Governance Arrangements post May 2018 and their effectiveness will be monitored.

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. The 2017/18 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 are included as part of the Constitutional updates to Council.

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 2016/17, that:

- They issued an unqualified opinion on the Council's 2016/17 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 2016/17.
- 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 2017.
- 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 consider.

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 2016/17 audit.

In their progress report to the Audit & Governance Committee in April 2018 the external auditors were able to state, for the year ended 31 March 2018 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 weaknesses 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/may seriously prejudice or prevent achievement of a principal objective;
2. The issue has/may result in a need to seek additional funding to allow it to be resolved;
3. The issue has/may result in significant diversion of resources from another aspect of the business;
4. The issue has/may lead to a material impact on the accounts;
5. The issue, or its impact, has/may attract significant interest or seriously damage the reputation of the Council;
6. The issue has/may result 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 2017/18 are outlined in the following table:

Title	CIPFA Criteria	Issue / Actions being taken	Responsible officer(s)
Children’s Services Financial Position	1, 2, 3	The Children’s Services budget position continues to face demand pressures in 2018/19 due to the volumes of social work being managed, the nature of cases being received (including higher dependency needs) and increasing costs of placements associated with these. This has led to a need for an increase in social workers to manage demand. Arrangements will continue to maintain awareness and ensure effective budget and case management continues 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
Highways Inspection	1, 3, 5	Ensure an effective inspection regime is in place in	Director of

arrangements		respect of the Highway Network (including in relation to bridges and structures) in accordance with the frequency and standards set out in the Well-maintained Highways Code of Practice (since updated and replaced by the "Well-managed Highway Infrastructure: A code of practice").	Growth & Development

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.

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 Customer Services
DATE:	24th July 2018

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2018/19

Based on monitoring information for the period 1st March 2018 – 30th June 2018

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, including in particular the potential for the Council to consider moving into taking more longer term borrowing.

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 2018/19, approved at Finance Council in February 2018, complied with both the CIPFA Code and with Department for Communities and Local Government (CLG) Guidance on Investments. New CIPFA and CLG guidance has been issued, and the impact of this is still under review. The CIPFA Code, Investment Guidance issued by CLG and Audit & Assurance reviews of Treasury Management activities all recommend a strong role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against 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

The Bank of England's Bank Rate held at 0.50% (having increased last November). There were high expectations that there would be an increase in May, but adverse economic indicators caused the Monetary Policy Committee to back away from this, and there is now some uncertainty over when the next rate increase will take place. Interest rates in financial markets moved up, and the rates at which local authorities lend between each other went up in the early part of the period, only to fall away again from mid-May. Any material sustained increase in interest rates would put pressure on the Council's interest budgets.

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 (adjusted for anticipated 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 MMF holdings are slowly improving, now paying approaching 0.45%. Bank account rates still vary, paying from 0.05% to 0.40%.

For limited periods, funds were also placed with the Government's Debt Management Office (at 0.25%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount	Rate %
15-Mar-18	04-Apr-18	Eastleigh BC	£5,000,000	0.85
28-Mar-18	30-Apr-18	Cornwall Council	£5,000,000	0.70
29-Mar-18	09-Apr-18	West Yorks Police	£3,000,000	0.65
13-Apr-18	15-May-18	Wirral MBC	£5,000,000	0.45
02-May-18	27-Jun-18	Suffolk County	£5,000,000	0.46
10-May-18	27-Jun-18	Thurrock MBC	£5,000,000	0.40
16-May-18	05-Jul-18	Tewkesbury	£1,000,000	0.45
01-Jun-18	07-Sep-18	National Counties Building Society	£1,000,000	0.62
11-Jun-18	11-Jul-18	Cornwall Council	£2,000,000	0.35
27-Jun-18	27-Sep-18	Thurrock MBC	£5,000,000	0.50
18-Jun-18	31-Aug-18	Eastleigh	£3,000,000	0.43

At 30th June, the Council had around £21.4 M invested, compared to around £17 M at the start of the period. Appendix 2 shows the breakdown of the investment balance at the end of the period. The Council's investment return over the period was around 0.4%.

For comparison, benchmark LIBID (London Interbank Bid) rates remained fairly stable. The average rate for 1 month's lending was around 0.38% (holding at around 0.37% at period end), and for 3 months were around 0.55% (and holding at around 0.54% at period end).

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. Average PWLB borrowing rates remain historically low, but moved up last autumn and winter, and have fluctuated since then. Though we have not taken new long term loans, if we were to do so, the cost would be higher than a year ago. New 5 year "certainty" loans would now cost around 1.8% (usually ranging between 1.8% and 2.0%), while loans from 20 to 50 years would cost something like 2.7% (ranging between 2.5% and 2.9%)

Short term borrowing rates - based on loans from other councils – remain historically low, and are fluctuating, having been on an upward trend, only to fall later in the period. Currently, 3 month loans cost around 0.45%, while 6 month/ 1 year loans were between 0.60% and 0.75% - these rates are expected to go up later in the year.

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 is around £92 M below the CFR – the gap widens as long term debt is repaid, and 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 to anticipate future borrowing needs.

Over the period, there was an increase in short term borrowing of £4M, as loans of £58M were repaid and **£62M of new loans** were taken (listed below).

New loans taken in the period

Start Date	End Date	Counterparty	Amount £	Rate
15/03/2018	22/06/2018	Dacorum	4,000,000	0.70%
15/03/2018	29/06/2018	Sedgemoor District Council	5,000,000	0.59%
15/03/2018	16/04/2018	Durham County Council	5,000,000	0.60%
19/03/2018	19/09/2018	Basildon District Council	2,000,000	0.80%
27/03/2018	18/10/2018	Halton Borough Council	5,000,000	0.95%
28/03/2018	27/03/2019	London Borough of Newham	5,000,000	0.75%
29/03/2018	30/04/2018	Crawley Borough Council	5,000,000	0.85%
16/04/2018	15/04/2019	Brentwood B C	1,000,000	0.90%
17/04/2018	18/10/2018	Basildon District Council	3,000,000	0.80%
20/04/2018	22/10/2018	Gwynedd County BC	3,000,000	0.84%
27/04/2018	29/10/2018	Tendring District Council	2,000,000	0.85%
27/04/2018	27/09/2018	West of England Combined Authority	7,000,000	0.75%
30/04/2018	29/04/2019	Gloucestershire	5,000,000	0.85%
31/05/2018	28/02/2019	Worcester City	2,000,000	0.78%
01/06/2018	28/03/2019	Wokingham BC	5,000,000	0.70%
26/06/2018	02/07/2018	Thurrock	3,000,000	0.45%
			62,000,000	

Future deals already agreed by end of period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
30/07/2018	28/02/2019	Kent Police	3,000,000	0.75%
31/07/2018	31/01/2019	Middlesbrough/Teeside Pension Fund	10,000,000	0.75%
27/07/2018	31/07/2018	Thurrock	3,000,000	0.42%
			16,000,000	

4.5 Analysis of debt outstanding -	1st March 2018		30th June 2018	
.	£000	£000	£000	£000
TEMPORARY DEBT				
Less than 3 months	0		0	
Greater than 3 months (full duration)	65,000		69,000	
		65,000		69,000
LONGER TERM DEBT				
Bonds	20,503		18,003	
Mortgages	17		17	
PWLB	104,564		103,783	
Stock & Annuities	258		258	
		125,342		122,061
Lancs County Council transferred debt		15,512		15,352
Recognition of Debt re PFI Arrangements		66,991		66,419
TOTAL DEBT		**272,845**		**272,832**
Less: Temporary Lending - fixed term		(6,000)		(12,000)
- instant access		(11,400)		(9,441)
NET DEBT		**255,445**		**251,391**

The key elements of long term borrowing included above are:

(a) £18M classed as bonds, borrowed from the money markets, largely in the form of “LOBO” (Lender Option, Borrower Option) debt. A £2.5M LOBO loan was repaid April 26th. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%
(b) £104M borrowed from the PWLB at fixed rates, at an overall average rate of around 4.2%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.94% to 3.77%. £0.78 M of EIP debt was repaid on April 3rd.
(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 was fairly stable, though levels of short term borrowing and cash balances did vary - they were not, as would normally be the case, at their lowest at 31st March, because anticipated higher levels of spending around the year end did not take place.

Investments have been, and will continue to be kept short term, and mainly in liquid deposits.

As has been noted, interest rates, while both low and volatile, have tended to be moving upwards. This increases the possibility that it may be more in the Council's interest, in the medium to long term, to move towards taking more of its borrowing need in longer term borrowing. Such a decision depends on taking a view as to likely future interest rates - both for borrowing and investment. Future rates will always be uncertain, and any such change would only be adopted after extensive deliberation and support from the Council's treasury advisers, Arlingclose. This would be a departure from the strategy of the last few years, which has focussed entirely on internal borrowing and short term borrowing, and could result in short run pressure on interest budgets.

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 30th June 2018 was, at £272.8 M, within our Operational and Authorised Borrowing Limits for 2018/19 (£309.5 M and £319.5 M 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.

The Council still holds a large part of its debt portfolio in loans of less than a year's duration - short term loans are currently the best value way to funding marginal changes in its debt.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £61 M, against the **Limit** set for this year of £95M.

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).

Our **Fixed Interest Rate Exposure** was around £109 M, against the limit of £217.5 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.

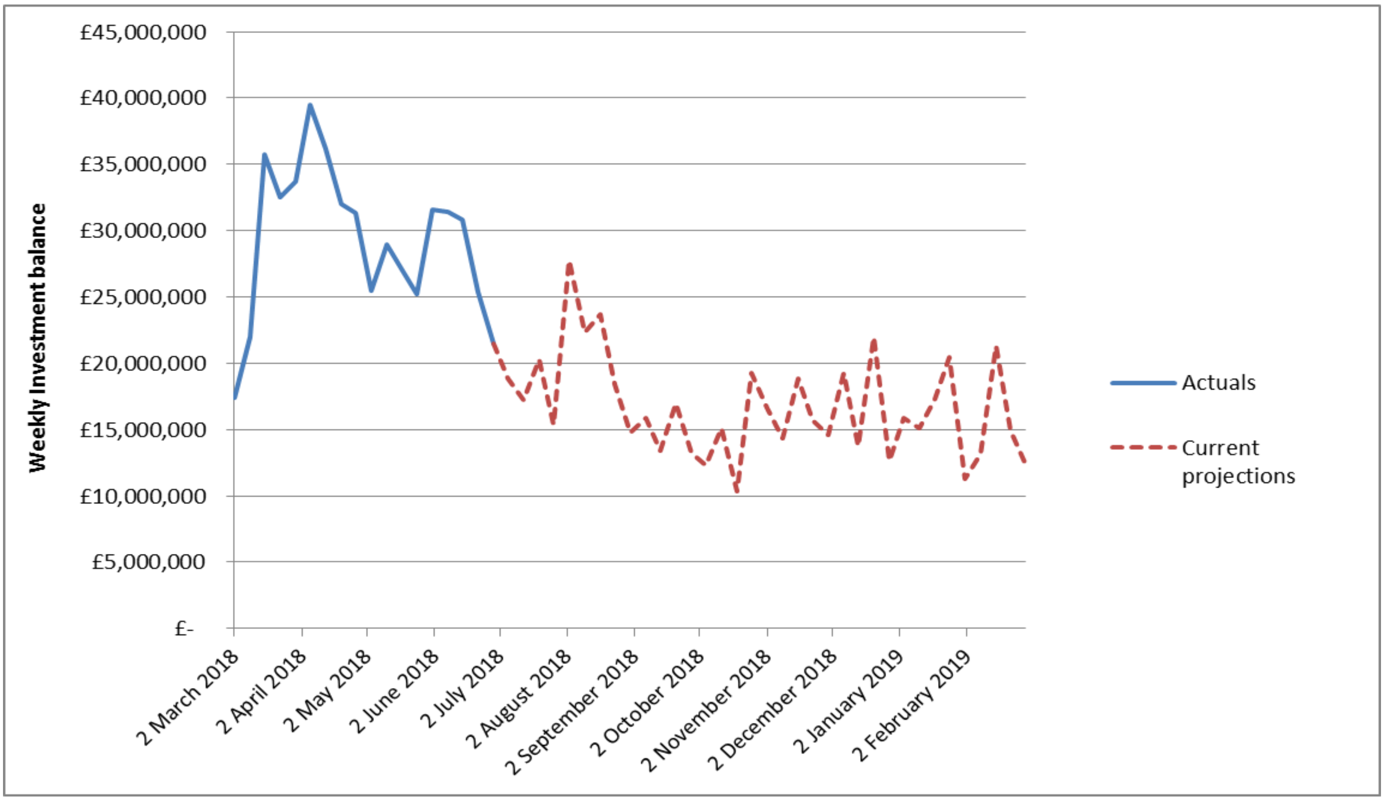
VERSION:	0.02

CONTACT OFFICER:	Ron Turvey- Deputy Finance Manager extn 5303 Louise Mattinson Director of Finance & Customer Services extn 5600
DATE:	5th July 2018
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategies approved Finance Council 27th February 2017 and 26th February 2018

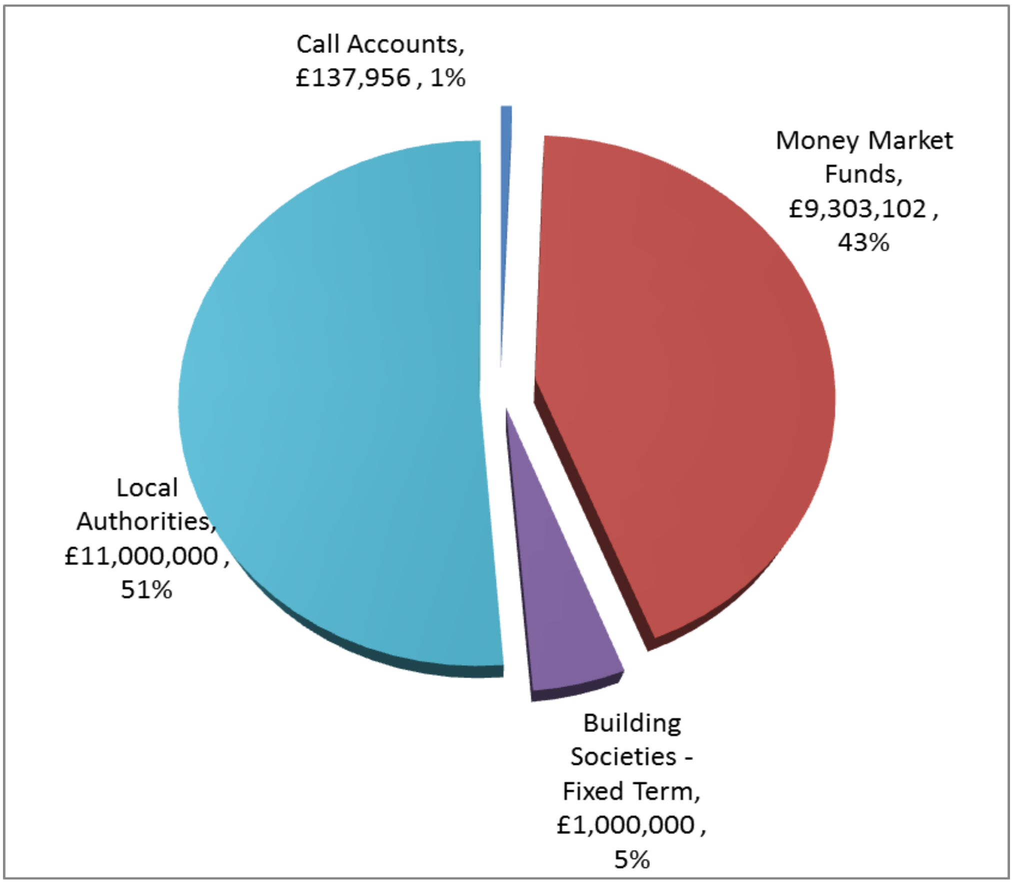
Appendix 1

Weekly Investment balances

March 18 to Feb 19



Investments at end of June 2018 **Appendix 2**



Performance against Treasury & Prudential Indicators 2018-19 (approved by Council 26th Feb 2018) **Appendix 3**

		Indicator 2018/19	As approved Feb 18	Current Monitoring	Commentary
	1	Local Authority has adopted CIPFA Treasury Management Code of Practice	CIPFA TM Code of Practice adopted March 2012		
PRUDENTIAL INDICATORS	2	Estimated Capital Expenditure	£30.3 M	£35 M	
PRUDENTIAL INDICATORS	3	Estimated total Capital Financing Requirement at end of year	£303.8 Million (incl projections re LCC debt £15.6M and accumulated PFI / Lease debt £69.7M)	these indicators are set when the Capital Programme is approved, to inform the decision making around that process, and are not, as a matter of course, updated during the financial year	
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	13.93% (Main Programme Capital Spend)		
PRUDENTIAL INDICATORS	6	Outturn External Debt prudential Indicators	see below	see below	LCC debt and BSF PFI debt witll both fall across the year, as debt payments are made
TREASURY	7	Variable Interest Rate Exposure	£95 Million	Exposure to date: £67 M	Limit not breached during the year
TREASURY	8	Fixed Interest Rate Exposure	£217.5 Million	Exposure to date: £109 M	Limit not breached during the year
TREASURY	9	Prudential limits for maturity structure of borrowing	see below	see below	

6 Outturn External Debt prudential Indicators – As approved Feb 18:

LCC Debt	15.6M
PFI elements (no lease)	69.7M
Remaining elements	224.20M
Operational Borrowing Limit	**309.5M**
Authorised Borrowing Limit	**319.5M**

6 Current Monitoring:

Borrowing to date	£M
LCC Debt	15.4
PFI Elements	66.4
BwD	188.0
Total	**269.8**

9 Prudential limits for maturity structure of borrowing – As approved Feb 18:

Lower Limit	Upper Limit	Period (Years)
0	50%	<1
0	20%	1-2
0	30%	2-5
0	30%	5-10
25%	95%	>10

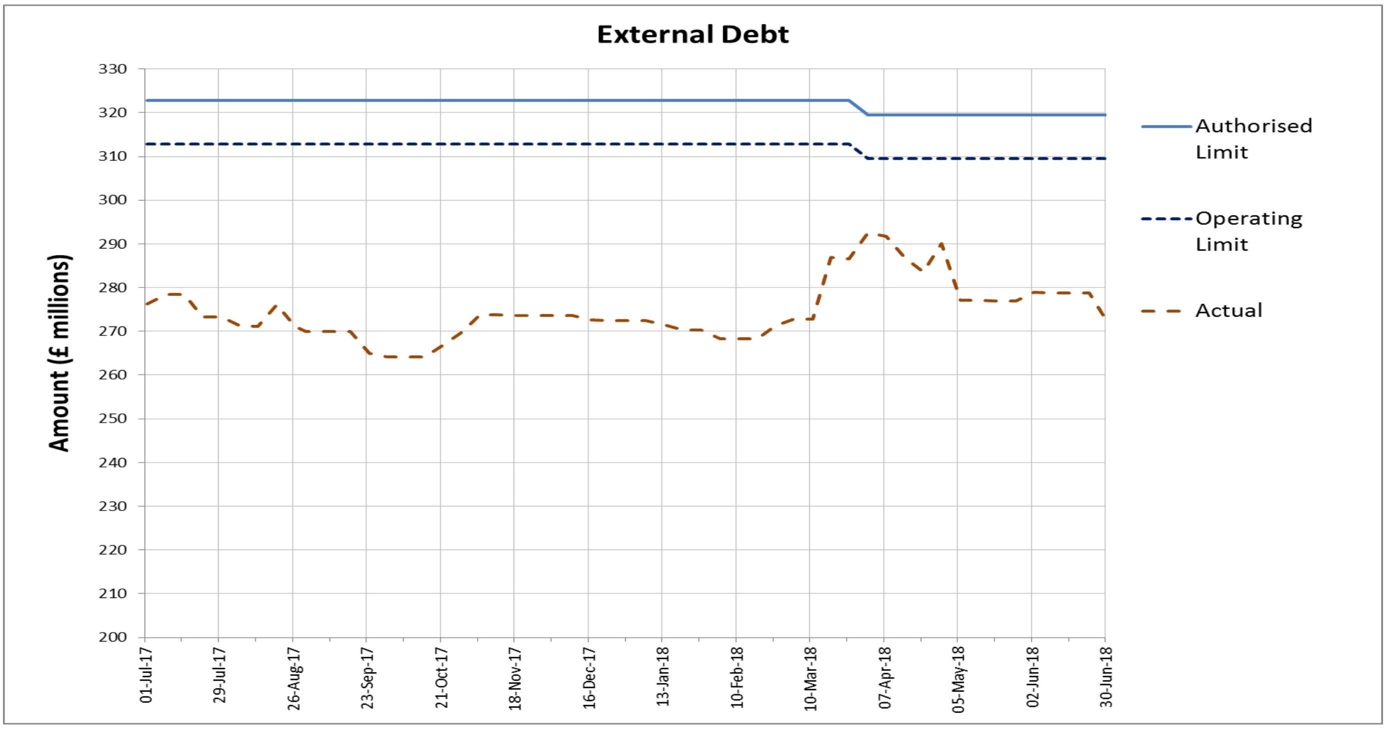
9 Current Monitoring – Actual maturity structure to date:

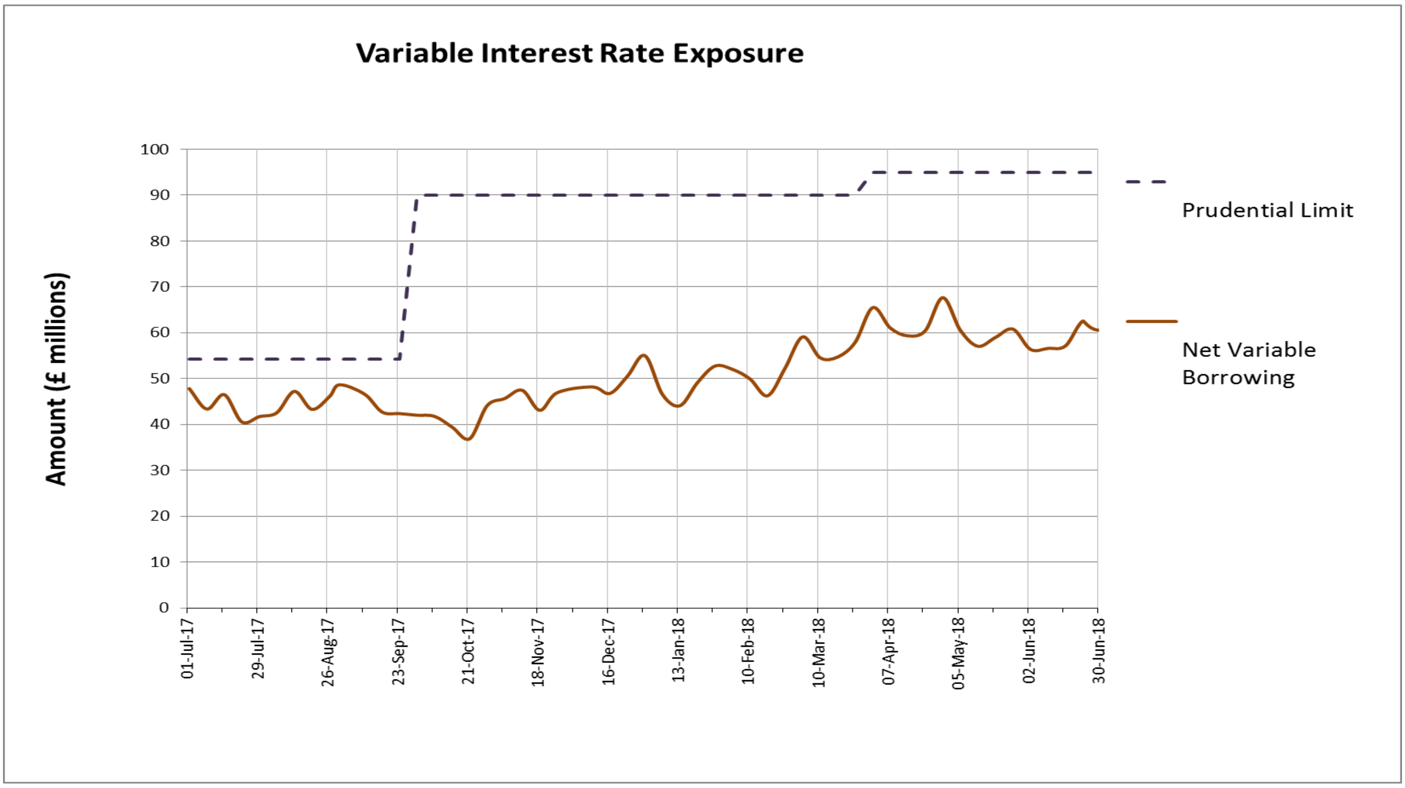
Period (Years)	£M	%
<1	66.9	35.6%
1-2	2.3	1.2%
2-5	3.7	2.0%
5-10	20.2	10.7%
>10	95.0	50.5%
Total	**188.1**	**1.0**

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





REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and Customer Services
DATE:	24th July 2018

WARD/S AFFECTED: All

Treasury Management Annual Report 2017/18

1. PURPOSE

1.1 To formally report the Treasury outturn for 2017/18, as also reflected in the 2017/18 Outturn Corporate Monitoring Report (5 July Executive Board).

2. RECOMMENDATIONS

2.1 Audit and Governance Committee is recommended to note the Outturn position for 2017-18.

3. BACKGROUND

3.1 In February 2017 the Council agreed a Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy for 2017/18.

3.2 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 the outturn after each year end. This report is to update Audit and Governance Committee on the overall outturn position for 2017/18.

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. 2017/18 OUTTURN

5.1 Original Strategy for 2017/18

5.1.1 The Strategy for 2017/18 was approved by Council on 26th February 2017. 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 2017/18

5.2.1 The year was characterised by continued uncertainty and volatility in various markets, with expectations of reduced Quantitative Easing and higher interest rates being only partially fulfilled. The UK economy showed signs of slowing, but still delivered growth in 2017 at around the same level as in 2016, partly as a result of international growth momentum generated by a more buoyant US economy, and a recovery in parts of the Eurozone.

5.2.2 Reflecting the fall in sterling following the EU referendum result, rising import prices pushed UK inflation to a CPI peak of 3.1% in November 2017, with inflation then starting to ease more recently. Though unemployment levels were low, real average earnings growth was negative before again starting to recover in 2018. Political uncertainty over the terms of Brexit helped keep UK business investment levels low.

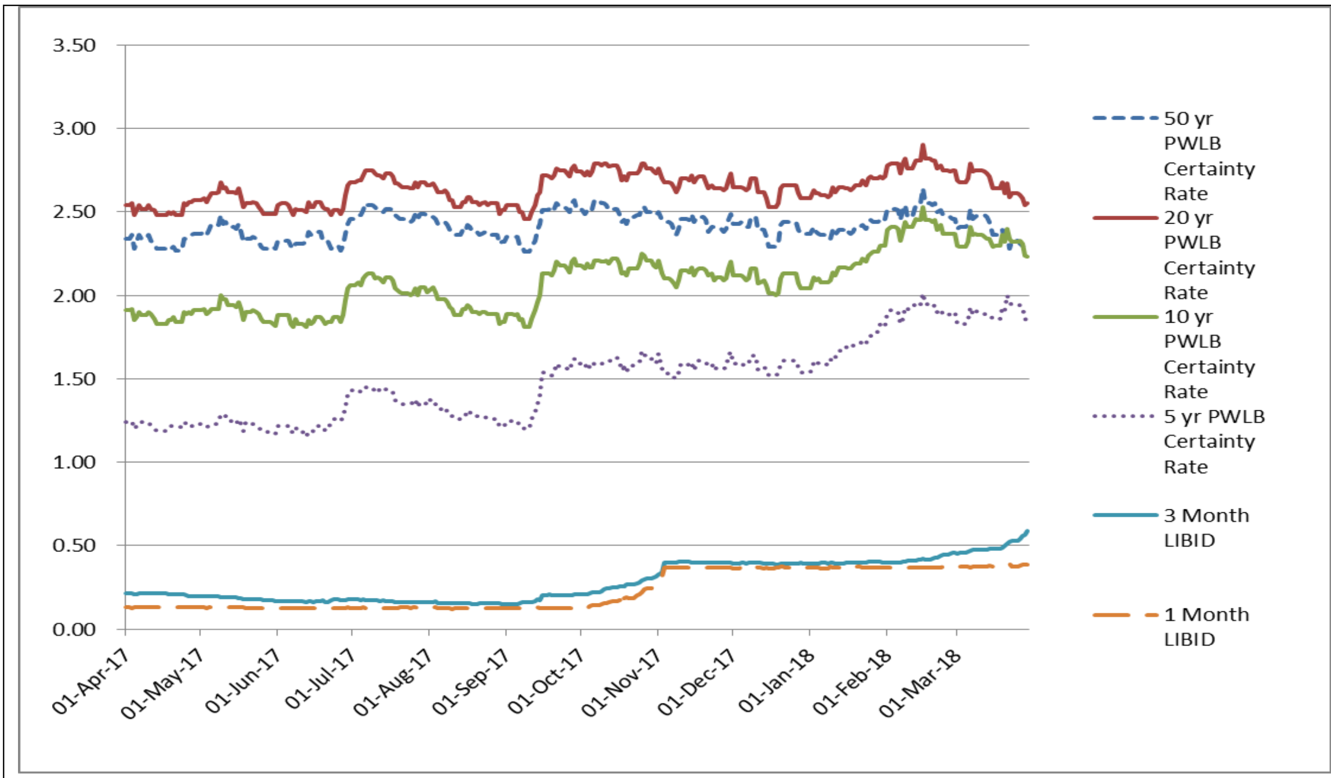
5.2.3 The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November, the first rate hike in ten years, though in essence only a reversal of the August 2016 cut following the referendum result. The MPC made it clear that it was keen to return inflation to the 2% target, with gradual and limited policy tightening over the next 18-24 months, and the March minutes suggested that an increase in May 2018 was highly likely. The increase in Bank Rate resulted in higher money market rates.

5.2.4 By contrast, economic activity in the Eurozone gained momentum, though the European Central Bank remained some way off normalising interest rates. The US economy grew steadily, and the Federal Reserve increased interest rates in December 2017 and in March 2018, with further increases expected in 2018.

5.2.5 Gilt yields – reflecting the cost of UK government borrowing – were volatile, but shorter term borrowing (out to 10 years) was more expensive by the end of the year.

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.

Interest Rate Movements in 2017/18 -



5.3 Treasury Management Performance 2017/18

5.3.1 By 31st March 2018, the Council had net borrowing of over £176 M, arising from its revenue and capital income and expenditure, up £14.5 M 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 2017 £M	2017/18 Movement £M	31 March 2018 £M
General Fund CFR	301.7	-1.8	299.9
Less CFR re Debt -			
managed by Lancashire County Council (LCC)	-16.3	0.3	-16.0
re Private Finance Initiative (PFI) arrangements	-70.0	0.1	-69.9
Loans/Borrowing CFR	**215.4**	**-1.5**	**214.0**
Less Usable Reserves	-49.4	8.4	-41.0
Less Working Capital	-3.9	7.5	3.6
Net Borrowing	**162.1**	**14.5**	**176.6**

The overall increase in **net borrowing** was because of a decline in both usable reserves and in working capital, with the opportunity taken to pay three years of Local Government Pension deficit lump sum in April 2017 (which will lead to net budget savings) being the main factor in the latter.

Under the Council's new Minimum Revenue Provision (MRP) Policy, adopted in 2016/17,

(a) the MRP charge to the accounts in respect of both PFI debt and debt managed by LCC has been 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 has been reduced.

This 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 2017 Principal (£ M)	Rate / Return	Avg Life (Yrs)	31 Mar 2018 Principal (£ M)	Rate / Return	Avg Life (Yrs)
Fixed rate funding:						
Public Works Loans Board	105.3	4.18%	23.5	104.5	4.20%	22.7
Market Debt (Long Term)	10.3	4.47%	37.7	10.3	4.47%	36.7
Market Debt (Short Term)	57.0	0.40%		85.0	0.57%	
	172.6			**199.8**		
Variable rate funding:						
Public Works Loans Board	0.0			0.0		
Market	11.5	5.38%	17.0	10.5	5.24%	17.5
	13.5			**10.5**		
Loans taken by Blackburn with Darwen Borough Council	**184.1**	**4.32%**	**24.0**	**210.3**	**4.30%**	**23.4**

Debt from PFI arrangements	68.6			66.8		
Debt managed by LCC	16.0	2.1%		15.4	2.0%	
Total debt	**268.7**			**292.5**		

Total investments	**22.2**	**0.31%**		**33.7**	**0.52%**	

No new long term borrowing was taken in 2017/18. The key changes to the Council's overall debt position across the year were:

a) An increase in the level of short term borrowing, from £57M to £85M,
b) Repayment of a £1M money market loan,
c) Principal repayments on PWLB (Public Works Loans Board) debt: £0.8M on EIP (Equal Instalment of Principal) loans,
d) Repayments of part of the outstanding PFI debt recognised on the balance sheet for Building Schools for the Future (BSF), and of 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 remained around the same, at 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 2016/17 £'000		**Original Budget 2017/18** £'000	**Outturn 2017/18** £'000
5,917	Interest paid on borrowing	5,866	5,716
289	Interest paid on debt managed by LCC	303	315
6,460	PFI interest paid	6,411	6,420
(214)	Interest receipts	(135)	(247)
4,985	MRP on Council borrowing	5,585	5,734
130	MRP – PFI debt	141	141
340	MRP – debt managed by LCC	340	340

5.3.4 Interest paid on borrowing in 2017/18 was around £0.1M 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 £124,000 to around £278,000.

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 up, at £28M (£20M in 2016/17). Balances were lowest at the start of the year, in mid-summer, and early March (see **Appendix 1**). In turn, overall interest earned was up a little to £0.25M in 2017/18 (£0.21M in 2016/17). The most significant component was the dividend and interest income from the Council's BSF PFI holding, at £0.16M (£0.14M in 2016/17). Interest earned on treasury cash investments increased a little, from £67 k to £77 k, but the average rate of return fell to 0.25% (against 0.3% in 2016/17).

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 2017/18. 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 revised MRP Policy introduced in 2016/17 can be seen in the continuing lower MRP costs in 2017/18, which, at £6.2M, were still around £4M lower than they would have been under the previous policy. The final MRP costs at outturn were around £0.15M higher than originally anticipated, due to lower than forecast capital receipts.

5.3.7 The position with regard to performance against Treasury/Prudential Indicators in 2017/18 is summarised in **Appendix 2**. There were no breaches of the Borrowing Limits. At the Mid-Year Strategy Review, approved by Council 5th October 2017, changes were made to the Treasury Indicators for the Maturity Structure of Borrowing, and for the Upper Limit on Variable Interest Rate Exposure, to accommodate the ongoing and increasing high level of Short term Borrowing. Outturn capital spend was £19M, down on the £21M forecast.

<u>5.4 Treasury Management Consultancy</u>

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

5.6.1 For most of the year, UK bank credit default swaps were low, after falling in the first quarter after confirmation that the Funding for Lending Scheme (giving banks access to cheaper funding) was being extended. UK bank ring-fencing - the process of splitting banks into core retail and investment components - began and will continue through to the end of 2018. This has generated some uncertainty for credit rating agencies over the credit-worthiness of the new entities.

5.6.2 The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds, which will continue to operate much like the funds currently used by the Council. Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure.

5.6.3 Moody's joined Fitch and Standard and Poor's in downgrading the UK sovereign credit rating. Otherwise, there was a mixed pattern, with some upward changes to outlooks or ratings, reflecting improved resilience and progress in meeting tighter regulatory requirements, and some negative outlooks or reviews, often reflecting ring-fencing uncertainty.

5.6.4 The changes in credit-rating assessments had little impact on the Council's lending, other than on lending to the Royal Bank of Scotland (RBS). In March Arlingclose advised removing them from the counterparty list, not because of a change in the bank's actual credit-worthiness but to reflect tighter criteria. RBS are the Council's current account bankers, so Treasury Management Group has determined to minimise the council's investment balances with RBS, subject to day to day operational practicalities.

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 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.

6.5.4 The rapidly expanding part of the debt portfolio - of around £85M 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.

7. FINANCIAL IMPLICATIONS

The financial implications arising from the 2017/18 Treasury Outturn 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

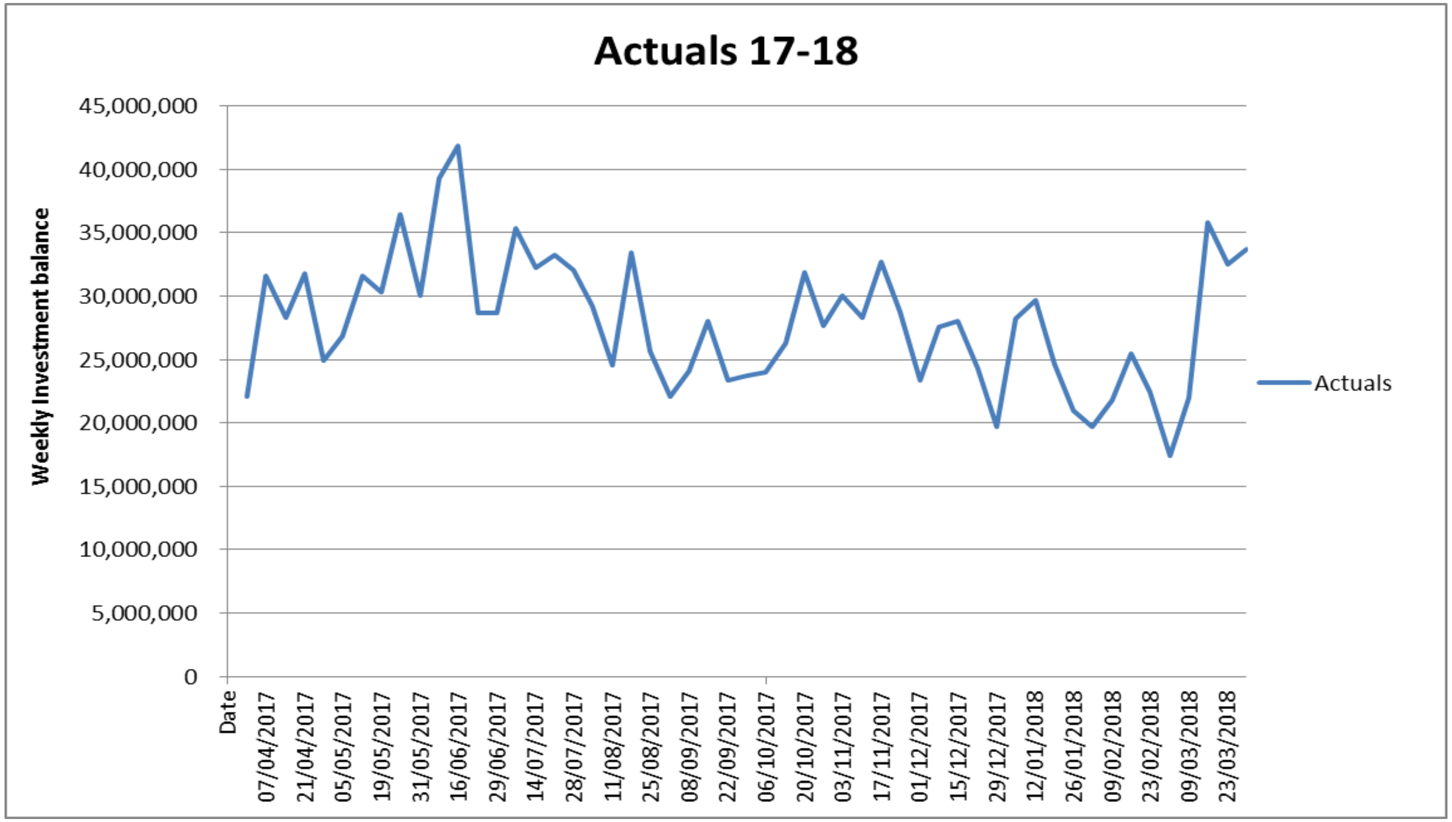
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect 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 & Customer Services extn 5600
DATE:	11th July 2018
BACKGROUND PAPER:	Treasury Management strategy for 2017/18 approved at Council 27th February 2017 and reviewed by Council 5th October 2017.

Weekly Investment balances

Appendix 1



Performance against Treasury & Prudential Indicators 2017-18 (approved by Council 27th Feb 2017 and 5 Oct 2017)

Appendix 2

		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	Outturn £18.66 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)	these indicators are set when the Capital Programme is approved, to inform the decision making around that process, and are not, as a matter of course, updated during the financial year	
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 15.4 PFI Elements 66.8 BwD 210.3 **Total 292.5**	LCC debt and BSF PFI debt witll both fall across the year, as debt payments are made
TREASURY	7	Variable Interest Rate Exposure	£90 Million *(increased from original 54.2 Million)*	Exposure to date £62.8M	Limit not breached during the year
TREASURY	8	Fixed Interest Rate Exposure	£220.2 Million	Exposure to date £113.8 M	Limit not breached during the year
TREASURY	9	Prudential limits for maturity structure of borrowing	see limits table below	see actual maturity structure table below	*Under 1 Year **Limit** reviewed and increased from 35% to 45% as part of the Mid Year Strategy Review*

Indicator 9 – As approved Feb 17:

Lower Limit	Upper Limit	Period (Years)
0	45%	<1
0	20%	1-2
0	30%	2-5
0	30%	5-10
25%	95%	>10

Indicator 9 – Current Monitoring:

Actual maturity structure to date		
Period (Years)	£M	%
<1	85.8	40.8
1-2	4.1	1.9
2-5	4.3	2.0
5-10	18.1	8.6
>10	98.0	46.6
Total	**210.3**	**100.0**

10	Total investments for longer than 364 days	£7 Million	**NO LONG TERM INVESTMENTS MADE**

TO:	Audit & Governance Committee
FROM:	Head of Audit & Assurance
DATE:	24 July 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Assurance - Progress and Outcomes to 30 June 2018

1. PURPOSE

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 March 2018 to 30 June 2018.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 June 2018 against the Audit & Assurance Plan, which was approved by Committee on 10 April 2018.

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 PSIAS and statutory governance requirements;
- it 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 to 30 June 2018:

Risk and Corporate Governance

Director Exception/Dashboard Report and Assurance Statement Year-end Update

The table below summarises the six "red" priority areas of concern across the departments, by key themes, which have been identified in the summary Director Exception/Dashboard Report and Assurance Statements completed as at 31 March 2018.

This includes three "red" priorities that have remained as areas of concern from 30 September 2017, two "red" areas that have been upgraded ([U] below) and one new "red" area ([N] below) which has been identified and appears as red for the first time. There are also five areas of concern previously identified as "red" that have been downgraded ([D] below) to "amber/green" in the period.

			2017/18	2017/18
Themes	**No**	**Description**	**31 March Year End**	**30 Sept Half Year**
Demand Management	1	Reducing fly tipping, landfill waste and maximising recycling in order to reduce the amount waste going to landfill. (Environment)	Red([U])	Amber
	2	Failure to recruit long term foster carers, Asian heritage foster carers and carers for older and more challenging young people increasing demand led services, in particular commissioned out of borough. (Children's)	Red	Red
	3	Social Worker Workloads (Children's)	Red	Red
		Improve Integrated Discharge pathways – discharge to assess. Mandated Delayed Transfer of Care (DToC) targets are significantly higher, these will be a challenge to achieve than those identified as achievable with the Council and across the partnership (Adults)	Amber([D])	Red
		Maintain the number of adopters approved. (Children's)	Amber([D])	Red
		Deliver statutory requirements under Deprivation of Liberty (DoLS) (Adults)	Green([D])	Red
Budgets & Finance	4	Family Court Decisions Placing Increased Financial Burden On Permanence Planning (Children's)	Red	Red

	5	Budget Pressures (Leisure)	Red(N)	n/a
		Budget Pressures – Adult Social Care Commissioning (Adults)	Amber(D)	Red
		Under performance against targets for the National Careers Service. Performance to date is behind the profile. This is a payment by results programme so failure to draw down the funding would cause a budget pressure (Localities and Prevention)	Amber(D)	Red
Staffing/ HR	6	Sickness Absence. (Adults).	Red(u)	Amber

With regards to the red issue noted above relating to waste going to land fill, changes have been introduced since the year end as a result of the new contract and more waste is now being diverted from landfill. However recycling rates remaining static and fly tipping is increasing.

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 2,581 data matches have been processed to date. A total of 483 fraud/errors have been found resulting in savings of £229,413. 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)	28	£60,904
Council Tax Single Persons Discount	323	£87,348
Private Residential Care Homes	2	£10,778
Taxi Licences revoked	3*	N/A
Blue Badges/Residents Parking Permits	107	£57,423**
Housing waiting list***	4	£12,960
Residents Parking Permits	16	-
TOTAL	**483**	**£229,413**

*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.

***B-with-us (Together Housing Group) manages the housing waiting list across a Pennine Lancashire sub-region which includes Blackburn with Darwen. We identified 4 cases which required the removal of the applicant from the housing waiting list. The Cabinet Office attaches a financial value of £3,240 per case where the applicant is removed from the waiting list. This figure is used in the table above.

The Council received reports from the Cabinet Office on 23 February 2018 which included 5,716 Council Tax Single Person Discount data matches for further review. The reports were generated after council tax records were matched with various data sets including the electoral register. The matches indicate that entitlement to Single Person Discount is incorrect and further enquiries need to be made. The reports have been forwarded to the Revenues section for further action.

The next National Fraud Initiative exercise (NFI 2018/19) will result in data matches being issued to the Council for further review and action from 31 January 2019.

During the period Audit & Assurance staff have also carried out an investigation into an alleged fraud following a complaint made under the Council's Whistleblowing Policy. The complainant suggested that a contractor was overcharging the Council for the services it provided. We found no evidence of fraud or overcharging and confirmed that effective contract management arrangements are in place.

Audit & Assurance recently conducted a review in a service area due to concerns raised by the Director into procurement practices and as a result of a complaint received from an external source regarding the inappropriate disposal of Council assets. Whilst no evidence of fraud was found we identified several issues concerning non-compliance with the Council's Standing Financial Instructions and Contract and Procurement Procedure Rules. The findings have been reported to management along with several recommendations to improve the control environment and ensure compliance.

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.

Internal Audit

A summary of the eight audits completed and finalised since the last report to Committee are detailed below.

Risk, Control & Governance Reviews	**Assurance Opinion**		**Recommendations Agreed**
	Environment	**Compliance**	
Adults Client Case Management System	Adequate	Adequate	5
Income Collection & Management	Adequate	Substantial	2
Public Protection Inspections	Adequate	Adequate	4
Creditors/E-Procurement	Adequate	Adequate	17
Capita Partnership Contract Management	Adequate	Adequate	10

St Paul's CE Primary School	Adequate	Adequate	22
Provision of Equipment to Service Users	Limited	Adequate	9
Severance Payments	Adequate	Adequate	3

We have provided a brief commentary on the audit assignment where we have provided a limited assurance opinion.

Provision of Equipment to Service Users: The audit objective was to ensure that there were effective contract management arrangements in place for the provision of equipment to service users. **Limited** assurance was provided for the control environment and **adequate** assurance for compliance with the controls identified in place. A number of areas were identified for management attention. These included the following:

- Ensuring that the use of the local network is properly approved in line with the Council's Contract & Procurement Procedure Rules;
- Establishing formal agreements with any retailers used in the provision of community equipment on prescription and ensuring that all suppliers listed on the local network are properly accredited; and
- Establishing performance measures and monitoring arrangements for retailers on the local network.

Current internal audit reviews

In addition to the above completed audits, the following reviews are ongoing:

- Partnership Arrangements;
- Payroll – Core System;
- Highways;
- Income Collection & Management;
- Overtime/Additional Hours;
- Kings Georges Hall Events Management;
- Main Accounting;
- Budget Setting and Control;
- Social Determinants of Health/Public Health Internal Spend;
- Project Management/Capital Schemes Management;
- Off Payroll Engagement (IR35); and
- Procurement and Contract Management Arrangements.

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 2018/19**	**Q4 2017/18**
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	**75%**	75%
3. Final Reports Issued Within Deadline	90%	**88**%	88%
4. Follow Ups Undertaken Within Deadline	90%	100%	88%
5. Recommendations Implemented	90%	**88%**	92%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	N/A

We have provided a brief commentary on the measures where performance (Q1, 2018/19) has fallen below the agreed target:

2. Planned Assignments Completed Within Budget
Two of the eight audits, Provision of Equipment to Service Users and Creditors/E-Procurement, (25%) completed in the period were over budget. Additional time was required to complete the testing on these audits due issues identified during the audits or the nature of the records involved.

3. Final Reports Issued within Deadline: The issuing of the final Public Protection Inspections report was delayed due to staff absence.

4. Follow Ups Undertaken within Deadline
Fifteen of the 15 audits requiring follow up in the period were issued for a response. We have received responses to 13 of the 13 audits (100%) where a response was required by 30 June.

5. Recommendations Implemented
Of the follow up responses received we were able to identify that 89 (88%) of the 101 recommendations due for implementation on or before the due date had been fully implemented or partially implemented.

- Our Lady & St John Catholic College – 29 recommendations in total, eight recommendations outstanding; two ‘musts’ partially implemented and two outstanding.
- Personalised Budgets – Direct payments – 14 recommendations; seven fully and five partially implemented. Two not yet done. Two ‘must’ were recommendations outstanding. These were substantial pieces of work and delayed due to the priority of year end procedures.
- Council Tax – two recommendations. One outstanding, no ‘musts’
- Members Allowances & Induction – ten recommendations; nine completed or partially implemented. One ‘must’ not yet done relating to Information Governance Training for members. Course available and to be promoted to members.

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:	11 July 2018
Background Papers:	Audit & Assurance Plan 2018/19, approved by the Audit & Governance Committee on 10 April 2018.

HEALTH AND SAFETY ANNUAL REPORT
1 April 2017 to 31 March 2018

1. Background

Blackburn with Darwen Borough Council has legal duties under the Health and Safety at Work etc Act 1974 and 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. The Council must do whatever is reasonably practicable to achieve this. This means protecting workers and others from anything that may cause them harm effectively controlling any risks to injury or health that could arise in the workplace. The Council sets this out in the Health and Safety Policy and Policy Statement.

These duties include the need to assess all risks that may cause harm, and introduce effective controls to reduce the risks where necessary. The Council must also provide information about the risks in the workplace and how people are protected. It must also provide instructions and training on how to deal with risks. The Council also has a duty to consult employees on health and safety issues, this is currently done through consultation with the trade unions and health and safety representatives through the Health and Safety Consultative Committee (HSCC) and departmental health and safety committees.

The corporate Health and Safety Policy was last reviewed in October 2017. This requires the Director of HR & Legal to present an annual health and safety report to the Chief Executive. The annual report$_1$ is a vehicle for the Council to describe the risk profile and performance in managing health and safety risks.

2. Health and safety policy

The current Policy was developed in 2010 based on Health and Safety Executive (HSE) guidance, and has remained in the same format since then. This format was very much systems and process orientated with Health and safety positioned as a separate business function.

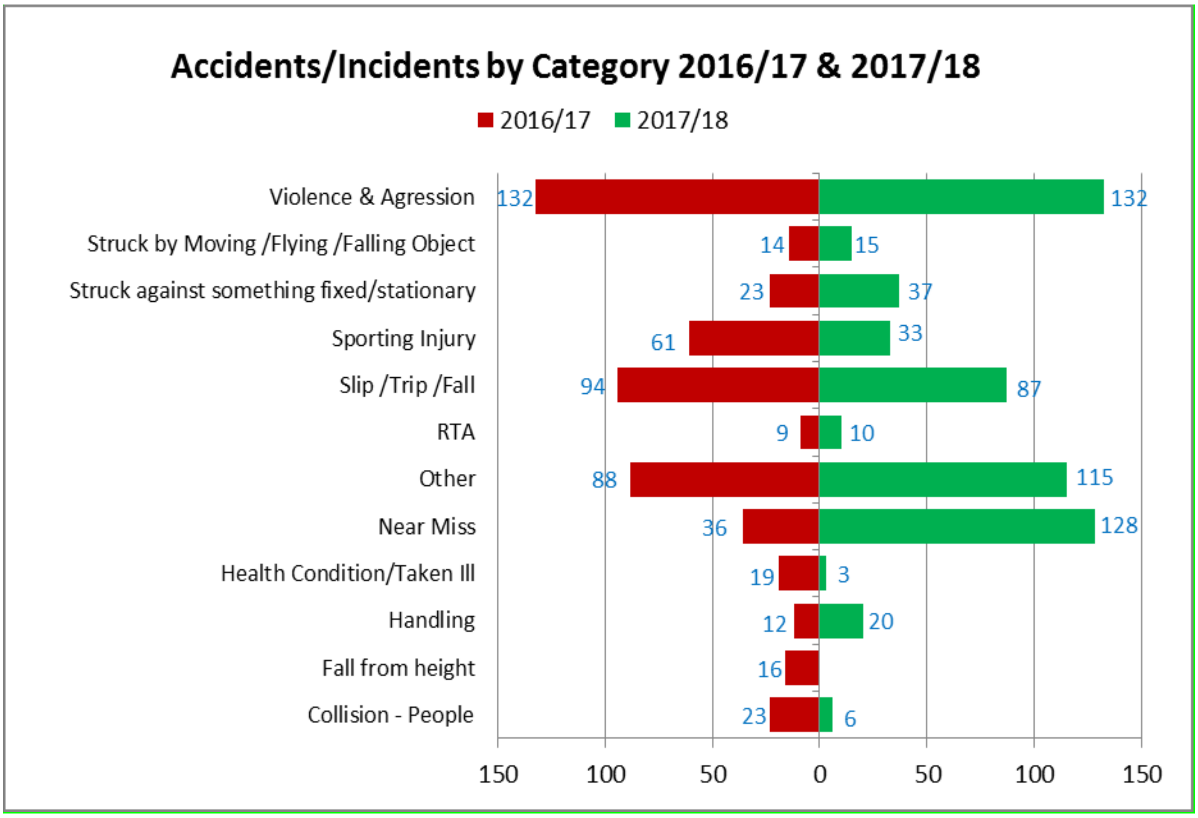
In 2013 the HSE developed revised guidance intended to make it easier for larger organisations and business leaders to understand the actions they need to take to comply with health and safety law. This simplified key concepts and focused more strongly on issues such as senior management leadership, workforce involvement and occupational health.

One of the most significant changes was the move to the 'Plan, Do, Check, Act' (PDCA) framework. This is designed to achieve a better balance between the systems and the behavioural aspects of management. The fact that the PDCA model is commonly referenced in ISO management standards also helps reaffirm that managing for health and safety is integral to running a business, and not a stand-alone add-on.

In line with HSE guidance document HSG65 It is recommended that the current policy and policy statement be replaced by a single, shortened and more user friendly policy based on the PDCA model by 31 March 2019.

3. Health and safety performance 2017/18

The year saw a significant and positive change in reported incidents. While the overall total did increase from 527 to 586 reports there was a significant increase in near miss reporting on the previous year meaning the actual number of accidents decreased from 491 to 458. This followed targeted action from the team to promote near miss reporting. The significant growth areas were in highways and refuse collection.



[1] This report is produced in line with Reporting Performance: Guidance on including health and safety in annual reports (Institution of Occupational Safety and Health)

Highlights during the year

- Significant increase in health and safety audits in higher risk areas (21 completed between July and April 2018);
- Not all audits given high compliance, gap analysis and action plans sent to Directors to achieve compliance;
- Workstation Warriors interactive visits to all main town centre offices;
- Development of new 'Violence and Aggression statement' setting out the Council's approach to dealing with violence and aggression in the workplace;
- Introduction of a mobile health surveillance unit for employees to have hearing and hand arm vibration checks at the Council Depot;
- Health and Safety Consultative Committee re-launched with training for group members and the inclusion of hot topics and the bi-monthly meetings.
- Working alongside our Wellbeing Colleagues across the Council to facilitate activity and change around the Wellbeing Strategy.
- Increased training and development activity with the Council.
- Increased training and development activity within the LEA.

4. Significant issues and incidents

Of the audits completed within the Council in 2017/18 more than half, 56%, were in the 'high compliance' category. The remaining 44% were 'medium compliance' which means that some lapses in health and safety controls were identified in the management of health and safety risks within that service area or building. Action plans are provided as part of the audit process, to support managers in achieving a high compliance level. This will include reviewing behaviours towards health and safety in the workplace to help reduce the risk to the Council. None of the audits completed in 2017/18 received a noncompliance category. A full list of audits and compliance level is included in Appendix A.

There were two significant incidents or accidents during the year. In the first an employee in the EDT team (Adult Social Services) was seriously assaulted to the head by a service user while working at a domestic property. Health and safety consultants met with the line manager and provided specific guidance to reduce the risk of a similar occurrence.

In the second incident a mini excavator overturned at Pleasington Cemetery while being operated by an employee. An investigation carried out by the health and safety team identified a number of actions required and made recommendations to prevent this happening again. The Leisure and Environment department is now putting together an action plan to address the gaps.

A consistent finding through accident investigation support to managers and also during the health and safety audit process from the health and safety team is the need to upskill managers in how to manage health and safety effectively.

5. Cases reported under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 2013 to the Health and Safety Executive (HSE)

During the year there 8 cases reported to the HSE. These were

Over 7 day injuries

Refuse – manual handling injury

Street cleansing – manual handling injury

Passenger assistant – manual handling injury

King George's Hall – laceration to hand on broken glass

Refuse – slipped on ice

Street lighting – manual handling

Specified injury

Reablement service – broken ankle after fall

Refuse – fractured elbow in a fall

This compares with 6 RIDDOR reports made in 2016/17. There were no RIDDOR reports relating to members of the public being taken directly to hospital for treatment of injuries or of any occupational diseases affecting employees.

BwD Health and Safety Recommendations for 2018/19	**Description**	**Action by who?**	**Deadline**	**Completed**
1	In line with HSE guidance document HSG65 It is recommended that the current policy and policy statement be replaced by a single, shortened and more user friendly policy based on the PDCA model by 31 March 2019.	Lead Consultant – Health, Safety and Wellbeing	31st March 2019	
2	Providing advice to managers on relevant training for their role to ensure they are competent to manage safety and health in a proactive manner. This may include:- - Induction training - Specialised Training/Briefing sessions e.g. HAVs - Certified health and safety training e.g. IOSH Managing Safely - E-learning – e.g. Manual Handling, Fire Safety, Lone Working, Working at Heights, Health and safety in the workplace, DSE.	Directors and Heads of Service Health Safety and Wellbeing Team	31st March 2019	
3	Ensure there is a planned approach to health, safety & wellbeing support across all departments which may include audits, single topic audits, monitoring activities, etc.	Directors and Heads of Service Health Safety and Wellbeing Team	31st March 2019	
4	Encourage reporting of accidents, incidents and near misses across Council departments. Ensure all accidents are investigated and control measures are reviewed to prevent a recurrence.	Directors and Heads of Service Health Safety and Wellbeing Team	31st March 2019	
5	Following the trend analysis of reported incidents over the last 12 months a Violence and Aggression Statement has been agreed. From September 2018 we will be implementing a programme of support which will include briefings to managers and training and development for staff.	Directors and Heads of Service Health Safety and Wellbeing Team	31st March 2019	
6	Ensure that we have a corporate health and safety training programme to address training needs of employees. This will include some mandatory training and development which will be delivered using a variety of training mediums.	Directors and Heads of Service Health Safety and Wellbeing Team	31st March 2019	

<u>Appendix 1:</u> Health and Safety Audit Opinions 2017-18

Service	*Compliance with Health and Safety Legislation*	*Date*
Witton Park Pavilion	High compliance	Jul-17
Mill Hill library	Medium compliance	Aug-17
Reablement Service	Medium compliance	Aug-17
Shadsworth Leisure Centre	Medium compliance	Sep-17
Blackburn Market	Medium compliance	Sep-17
Highercroft Children's Centre	Medium compliance	Sep-17
Passenger Services - Drivers	High compliance	Sep-17
Refuse collection	Medium compliance	Oct-17
Corporate Building Team	High compliance	Oct-17
Little Harwood Children's Centre	Medium compliance	Oct-17
School Crossing Patrols	High compliance	Oct-17
Motor vehicle service centre	High compliance	Nov-17
Darwen Town Hall	Medium compliance	Nov-17
Audley & Queen's Park Children's Centre	High compliance	Dec-17
Audit & Assurance	High compliance	Dec-17
Street Cleansing	Medium compliance	Jan-18
Darwen Youth Centre	High compliance	Jan-18
Parking and Civil Enforcement	Medium compliance	Feb-18
Passenger Services - Passenger Assistants	High compliance	Feb-18
Witton City Learning Centre	High compliance	Mar-18
Street Lighting	High compliance	Apr-18
10 Duke Street Building	High Compliance	Apr-18
Arboriculture	High Compliance	Apr-18

TO:	Audit & Governance Committee
FROM:	Director of Finance & Customer Services
DATE:	24 July 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF BRIEFING PAPER **Risk Management Report Annual 2017/18**

1. PURPOSE

The Corporate Risk Management Strategy and Framework 2015/20 requires the Audit & 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 requires it to review progress on risk management at least annually.

2. RECOMMENDATIONS

The Committee is asked to:

- Consider and review the annual risk management report; and
- Agree the conclusion on the overall effectiveness of the Council's risk management arrangements in place during 2017/18.

3. KEY ISSUES

1. Summary

1.1 The Annual Risk Management Report provides the Audit & Governance Committee with a summary of risk management activity that has taken place across the Council for the year ended 31 March 2018. The risk management framework and associated systems and procedures should ensure the Council has adequate and effective risk management and resilience arrangements in place to ensure that key business objectives are met.

1.2 The key elements of risk and resilience considered under the framework are:

- Risk Management;
- Insurance;
- Emergency Planning and Business Continuity (including health aspects);
- Information Governance; and
- Health, Safety and Wellbeing.

1.3 This report covers the activities relating to the corporate and departmental risk management arrangements, emergency and business continuity planning, event management, information governance and insurance. It outlines the risk management policies and arrangements currently in place, activities which have taken place or been delivered during the last year directed at achieving the various risk objectives, and details of key actions or developments for 2018/19.

1.4 A separate health, safety and wellbeing annual report will be presented to the Committee.

2. Background and Overall Assessment

2.1 The Council uses the Institute of Risk Management's definition of risk management, which is as follows:

'The systematic process which aims to help organisations understand, evaluate and address risks to maximise the chances of objectives being achieved and reduce the likelihood of failure. It also exploits the opportunities uncertainty brings, allowing organisations to be aware of new possibilities.'

2.2 The Council recognises that risk management is not simply a compliance issue, but rather it is a way of viewing and managing its operations with a significant impact on long-term viability. It understands that effective risk management helps to demonstrate openness, integrity and accountability in all of the Council's activities. It also benefits how we operate, to ensure that key risks are identified, assessed and mitigated appropriately and effectively.

2.3 The details provided in this report provide evidence that, overall, the Council has adequate risk management arrangements in place and these have operated effectively during the year ended 31 March 2018. Areas for action or development during 2018/19 have been identified in the following sections. These will strengthen the existing systems and procedures in place.

RISK MANAGEMENT

3. The Corporate Risk Management Process

3.1 The Corporate Risk Management cycle is aimed at identifying, analysing, prioritising, managing and monitoring risks which could impact on the delivery of the Council's objectives (i.e. corporate risks).

3.2 Corporate risks are those significant risks which could impact on the overall success of Council objectives and priorities, or the vitality and viability of the organisation. Should these risks materialise Members and other stakeholders/partners, including the public, will be aware of them and they may affect the reputation of the Council, amongst other significant consequences.

3.3 The Chief Executive and Management Board are responsible for leading and ensuring effective risk management operates consistently across the Council. Each Director is the risk owner for all risks within their Department. Departmental Risk Champions provide support to senior managers to maintain their departmental risk registers. Advice and support regarding risk management issues is also available from the Head of Audit & Assurance. The Champions provide advice on risk management matters to Executive Members, Directors, Heads of Service and other managers within each department or service area. These officers also highlight relevant significant risks included on departmental risk registers for consideration to be included in the corporate risk register. These are escalated to the Management Board for consideration and approval.

4. Corporate Risk Register

4.1 Corporate risks are those which may impact on the overall achievement of Council objectives and priorities. Management Board reviews the corporate risk register on a six monthly basis to ensure that appropriate corporate risks are identified, assessed and aligned to corporate priorities and objectives on an ongoing basis. A revised risk register format has been used since 2016/17, as part of the implementation of the revised Corporate Risk Management Strategy and Framework 2015/20. The corporate and departmental registers now include inherent and target risk scores for each risk and the summary reports show any change in residual risk scores between period ends to enable movements to be easily tracked.

4.2 The only changes to the corporate risks made during the year relates to the residual scores in respect of the Business Continuity (BC) risk and failure to improve the education and skills for our young people. The BC risk has increased from low to medium. 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 12-18 months as well as the number and nature of recent cyber related events which have impacted organisations and businesses nationally.

4.3 The residual risk score relating to failing to improve the education and skills for our young people has reduced as the controls in place are considered adequate to manage this risk. This includes involvement at a local and regional level regarding school improvement which should address this risk appropriately.

4.4 As at 31 March 2018 the Corporate Risk Register contained 15 risks, the same number as at 31 March 2017. A summary of all the corporate risks is attached at Appendix 1. The following list shows the number of risks that are aligned to each of the corporate priorities:

Corporate Priority	No of Risks
Jobs	6
Housing	6
Health & Wellbeing	8
Outcomes for Young People	5
Safeguarding Vulnerable People	10
Making Your Money Go Further	9

4.5 As at 31 March 2018 the Council's top corporate risk was the risk of a serious/critical safeguarding incident.

5. Key events and achievements during the year

5.1 During the year corporate risk management support has been delivered by the Audit & Assurance team, under the Director of Finance & Customer Services, to support the achievement of the risk management objectives. Key activities undertaken/achievements during the period include the following:

<u>Corporate/Departmental</u>

- The introduction of regular 'deep dive' reviews of specific corporate risks by the Audit & Governance Committee to improve its oversight and understanding of these risks;

- Improved monitoring and reporting of risk assessments via the implementation of the updated Summary Risk Register template, which now includes the facility to track changes to residual risk scores between periods;
- The ongoing implementation of the Counter Fraud Risk Register;
- Ongoing support was provided to Directors and managers regarding the identification of risks and management of corporate and departmental risk registers, the application of the Corporate Risk Management Strategy and Framework and use of the risk registers;
- Monitoring and review of the completion of corporate and departmental risk registers, with associated reporting to Management Board and Audit & Governance Committee;
- Implementation of streamlined Management Accountabilities Framework Dashboard reporting arrangements;
- Audit & Assurance continuing scrutiny and challenge of Directors Management Accountabilities Framework Dashboard reports, to ensure that risk issues identified have been included in Departmental or Corporate risk registers;
- 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 been circulated and published on the intranet regarding business use car insurance requirements for staff using their own vehicles for Council business, the completion of 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;
- The Road Risk Management Group Review continues to meet regularly to consider fleet and driving risks. This includes monitoring of insurance claims and vehicle tracker reports relating to Council fleet vehicles and drivers by to identify any themes or training needs; and
- Funding the purchase and installation of dashboard cameras in the Council's street cleansing vehicle from the corporate risk management initiatives budget.

5.2 During the last year colleagues from Zurich Municipal have continued to provide risk management support to the Council as part of the new long term insurance agreement. This has included:

- providing support to Information Governance staff as part of the Council's preparation for the implementation of the General Data Protection Regulations (GDPR), which will apply from 25 May 2018. This included a briefing for a Joint Management Board & Heads of Service meeting on this topic to raise awareness of key information risks and accountabilities defined in the BwD Council Information Governance Framework;
- a review of the Council's arrangements within Children's and Adult's Social Care to effectively manage risks arising from the rights of data subjects to request access to personal information;
- accident investigation training for Environment and Leisure managers

and supervisors;

- a review of the current arrangements used by the Council to inspect open land and manage contaminated land/brownfield sites, followed by an inspection regime training session for the Public Protection team using findings from a site visit; and
- a briefing and training session for Parks staff to raise awareness regarding identifying and reporting defects and the role that this plays in loss prevention and claims defence.

6. Developments for next 12 months

6.1 The risk management activity planned for the next twelve months includes the following:

- Continuing the 'deep dive' assessment of corporate risks by the Audit and Governance Committee at each meeting;
- On-going identification of areas to utilise the risk management support available from Zurich Municipal, including a training course on the role and responsibility of Events Safety Groups for the members of the Council's Event Safety Advisory Group;
- On-going development of fleet driver and manager awareness and training to ensure robust accident investigations are carried out and minimise the incidence and impact of motor vehicle claims and incidents;
- On-going support for appropriate corporate and departmental risk initiatives via the internal risk management fund;
- Continuing the cycle of Departmental risk register reviews and challenges as part of the risk management work carried out by Audit & Assurance staff; and
- A review of the Counter Fraud Risk Register by Audit & Assurance to provide assurance on the risks identified.

7. Review of the Effectiveness of Risk Management Arrangements

7.1 The arrangements, as set out in the Risk Management Strategy & Framework, have been undertaken throughout the year as illustrated by the examples noted in this report. We consider that the Council continues to maintain robust and effective risk management processes. This conclusion is supported by the results of the exercise which was carried out in 2016/17 using the CIFPA Risk Management Benchmarking tool. This considered the risk management arrangements in seven strands and assessed the Council's risk maturity in each of these areas. The benchmarking was carried out by the Head of Audit & Assurance, with support from the Head of Service for Policy, Performance and Commissioning in Children's Services and the Housing & Localities Business Support Service Lead. The five assessment categories, from lowest to highest, are Awareness, Happening, Working, Embedded & Integrated and Driving. The Council's results were as follows:

- Risk Management Enablers:
  - Leadership & Management – Working;
  - Policy & Strategy - Embedded & Integrated ;
  - People - Embedded & Integrated;

- Partnership & Shared Resources – Working;
- Processes – Working.

- Risk Management Results:
  - Risk Handling & Assurance - Embedded & Integrated;
  - Outcomes & Delivery – Working.

7.2 The Audit & Assurance team will continue to develop the arrangements to address the issues noted from the audit and ensure that the arrangements in place meet the changing needs, risks and pressures that the Council faces.

CIVIL CONTINGENCIES - Emergency Planning & Business Continuity

8 Emergency Planning

8.1 During the year to 31 March 2018, Blackburn with Darwen had several emergency events affecting the community at large. These were:

- Increased security considerations for Council staff and the community as a result of international terrorism events impacting upon UK Nationals;
- Loss of water to over 3000 properties;
- Fires (x4) at V-10 Polymers (high risk fire site);
- Hazardous substance release in Edgeworth, and in Blackburn;
- Flash flooding in Darwen;
- Numerous property fires with residents in need of support;
- Suspect package found at Cathedral Quarter;
- Counter terrorism events in London and Manchester.

8.2 Duty officer statistics for 2017/18 were as follows:

- Local Warnings received = 153
- Information received total = 181;
- Activations total = 42 (Tactical Officer notified on 14 occasions);
- Total activity =334**.**

9 Key events and achievements during the year

Corporate Exercise

9.1 This year the annual corporate exercise focussed on a prolonged emergency which required staff to have personal resilience and therefore providing business resilience to cover 3 shifts over 24 hours. The Emergency Control Centre plan was activated and tested (in situ), as was the Generic Emergency Response plan and a number of supporting plans, Human Aspects, Transport etc. Handover of information and shift change was tested. A report, with recommendations, is being progressed.

Schools Community Resilience Project

9.2 The Civil Contingencies Service has created and developed a multi-agency programme to promote Community Resilience by engagement through Schools. This is a concept of enhancing community resilience (and therefore reduce the reliance upon the local authority in times of emergency) by using "pester power" i.e. engaging with children to target parents.

9.3 Community Resilience is fundamental to empowering communities in helping prepare themselves against emergencies and disruptive events and become less reliant upon the Council for support. When the community is better prepared to respond to and recover from an emergency, they are better able to cope in the immediate aftermath and also through the recovery phase of an emergency (prolonged period following an emergency). When an emergency happens the first people to respond are those people in the immediate vicinity, followed by the "blue light" services then the Local Authority as necessary. Therefore it makes sense for a community to be resilient and self-reliant in times of emergency.

9.4 There were three pilot schools tested before the full roll out in November 2016. Since then we have engaged with 22 schools to provide initial advice and guidance and had full engagement from 14 of those schools and ongoing enquiries from additional schools who have just taken up the e-resources only.

Plan reviews

9.5 The Departmental Business Continuity (BC) and 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 BC plans and then a strategic plan on a page, showing critical functions and risks, will be created for Chief Officer use.

Pandemic Influenza Countywide Exercise

9.6 The Civil Contingencies Service was part of the planning group and participated in the Lancashire Resilience Form (LRF) countywide pandemic influenza exercise. This is still considered as the highest risk facing the UK.

e-Learning Portal

9.7 The Civil Contingencies Service is taking advantage of the corporate e-learning portal to promote awareness of the corporate role and expectations of staff in support of the Civil Contingencies Service. There are two e-learning packages on the portal. The first is aimed at all staff as an introduction to Civil Contingencies with an option to become a volunteer. The second is specifically for all managers to have an understanding of civil contingencies and the impact an emergency or business disruption has on their service and their responsibility if one of their staff is a volunteer. All staff should be aware of these training packages and undertake them.

BC Quality Assurance Audit Programme

9.8 A Quality Assurance Audit Programme was created to support the recommendations and outcomes of the corporate BC exercise. This action addresses a number of the identified issues of plans not being up to date and regularly reviewed to ensure departmental/re-structures are included in the future planning of services.

9.9 A timetable for reviewing each departmental audit questionnaire, training needs analysis and plan maintenance is in place. These are planned on a bi-monthly basis to enable the Civil Contingencies Service to be able to resource this need adequately. The onus is with Directors and departments to ensure BC is considered and embedded within the departments, (refer to Business Continuity Strategy 2015) and to support BC Champions where departments still have this resource.

9.10 Currently all services have completed their audit questionnaire and returned their responses and either have been visited or are on schedule for being over the next year.

Schools Emergency Planning Template (Charging For Advice)

9.11 The Civil Contingencies Service has worked with Education Services and the Education Risk Advisor to create a streamlined "model emergency plan template" to be used by infant schools right through to colleges and children's centres.

9.12 In previous years schools had received three large volumes of emergency planning advice and templates, which had caused confusion. Therefore a review was necessary.

9.13 This streamlined service was rolled out to schools in September 2017. Generic advice is free of charge to schools, as is emergency response support. However, in order to bring the Civil Contingencies Service in line with other Council services, a charging scheme has been created for specific training and exercising or plan writing. To date 14 schools have requested initial advice and guidance and 4 schools have requested specific chargeable services e.g. training and exercising.

Project Griffin Update

9.14 Project Griffin is a National Counter Terrorism Security Office (NaCTSO) training package, to raise staff awareness around Counter Terrorism and to reassure them. The training reassures staff and raises awareness in identifying suspicious behaviour and not for religious stereotypes. This is currently being rolled out to all Council staff throughout 2018 in targeted sessions. This will be followed up by e-learning.

Capita Contract – Business Continuity Implications

9.15 As services come back in-house or are contracted out to external providers, the Civil Contingencies Service is working to ensure that these services are incorporated into revised departmental business continuity plans, and that "key functions" are reviewed to ensure accurate scoring and reflection of appropriate actions in plans.

External Business Continuity Promotion Support

9.16 Under the Civil Contingencies Act 2004, Local Authorities have a duty to provide business continuity advice and guidance to small and medium sized businesses. This has been low level to date, with one or two firms across the borough approaching the Service for advice. Guidance and support has recently been refreshed to promote the Service via online support, hardcopy booklet/plans and via business rates notices and HIVE meetings.

10 Key Additional Developments for the next 12 months

10.1 Schools Community Resilience Project – intention to accredit scheme via Wolverhampton University, then promote to Cabinet Office and national partners via Resilience Direct as "Good Practice"

10.2 Schools Emergency Plan Model template will be used to generate income for the service and will be promoted wider than borough as "external" schools are already interested.

10.3 Countywide Emergency Response Group (ERG) Volunteer Training will continue to be developed in order to ensure that the community receives consistent support across the county. Blackburn with Darwen Borough Council will continue to host training events for internal staff and for countywide staff, with a published list of training dates available.

10.4 Project Griffin will be delivered via face to face training as a reassurance to staff. This will be available via e-learning by the end of the calendar year for staff to refresh on the updated information.

10.5 The Civil Contingencies Service is still working on creating a “Staff Information Line” to be used in times of emergency to inform staff of welfare issues or emergencies. This will utilise information held in MyView i.e. staff contact numbers works mobile and personal mobiles to text alert staff to call the Staff Information Line for fuller specific information. This would be activated with Tactical Officer permissions. Messages could relate to “Don’t attend Duke Street because of……” or “there has been an ICT outage please log on from home”. This is still in the development stage due to delays with staff updating personal information to MyView.

10.6 Review and update of the Business Continuity risk information will continue. As the organisation continues to change and redesign itself it is vital that the business continues to review itself and updates the business continuity plans and detail. Services and staff change on a regular basis. Therefore the Civil Contingencies Service will continue to review all plans and Business Impact Analysis via the quality assurance BC audit.

EVENTS

11 Events Safety Advisory Group (ESAG)

11.1 This multi-agency group, chaired by the Leisure Facilities Manager, is well established and meets on a regular basis to review events planned across the borough. The Group is attended by representatives from many Council Departments including Public Protection, Licencing, Insurance, and Emergency Resilience, as well as the three Emergency Services. The group acts as a central point for all event notifications, ensuring organisers have a single point of reference to obtain support and advice regarding their event. The members of the Group are aware that they play an important role and challenge where necessary plans that are not thorough to ensure that all quality standards are met.

11.2 Registration of events is stringent with organisers required to submit Event and Traffic Management plans and insurance details which are scrutinised by all members of the group. In addition, the organisers of large events are invited to an ESAG meeting to be interviewed by the members. Once this is all complete the Group signs the event off. This is done in order to ensure safe and well managed events are conducted and also to protect the Council in terms of its reputation and any risk possibilities.

11.3 The Council has arranged or facilitated numerous events from Fairgrounds in parks and the Town Centre to Music festivals at Darwen Music Live and the large Restricted Forrest events at Witton and the Festival of Making in the town centre, Elton John at Ewood and the Grace Davies home coming on Cathedral Quarter. This next year we are expecting even more events to be held.

11.4 Recently there have been high profile cases of ESAGs in other Authorities not getting it right. To learn from these the Group Chair circulates details relating to the incidents with the members of the group, where possible, to reiterate the level the level of responsibility that we have in protecting the reputation of the Council. In addition, a best practice training course has been arranged for the Group that is being delivered by Zurich Municipal, as part of their risk management support, on the role and responsibility of ESAG groups. This is taking place in the Town Hall in May 2018.

INFORMATION GOVERNANCE (IG)

12 Introduction

12.1 The IT Compliance and Information Governance team, within the Information Technology Management & Governance Department, has overall responsibility for the information governance framework within the Council. The team also receive and coordinate responses to Freedom of Information (FOI), Environmental Information Regulations (EIR) and Data Protection Subject Access (DP SARs) requests.

12.2 In addition, the team is responsible for monitoring information security incidents in relation to the Data Protection Act (DPA), reporting any breaches, ensuring that all incidents are thoroughly investigated and that appropriate corrective action is taken. The team are the first point of contact for complaints made, about the Council, to the Information Commissioner's Office (ICO).

13 Annual requests and clearance statistics for 2017/18 and comparison against 2016/17

		2017/18	2016/17
FOI	Number received	1204	1214
	Number due	1174	1196
	Number on time	1155	1154
	% on time	98.38%	96.49%
EIR	Number received	1035	738
	Number due	1029	759
	Number on time	612	429
	% on time	59.47%	56.52%
Combined FOI/EIR	Number received	2239	1952
	Number due	2203	1955
	Number on time	1767	1583
	% on time	80.21%	80.97%
DPA	Number received	160	156
	Number due	163	148
	Number on time	109	104
	% on time	66.87%	70.27%

13.1 The number of FOI/EIR received in 2017/18 compared to 2016/17 has increased by 14.7 %. FOI compliance rates were above the mandatory requirement rate of 85% with a rate of 98.38% responded to on time. EIR compliance rates remained below the mandatory requirement of 85%, running at 59.47% compliance.

13.2 The number of DP SARs received in 2017/18 compared to 2016/17 has increased by 2.6%. The compliance rate again falls short of the mandatory 85% requirement with only 66.87% of requests answered on time.

13.3 The number of DP SARs received under Sections 29 and 35 of the DPA (Police Address Checks by IG, and Police Social Care file requests) were not recorded separately in 2016/17. However, the recorded requests for 2017/18 totalled 551, with 97.7% answered on time.

14 Information Assurance Incidents Recorded During 2017/18

14.1 During 2017/18 there were 27 recorded information assurance incidents. This is a decrease of 10% against 2016/17. All incidents have, or are in the process of being investigated. Remediation action plans have been drafted in agreement with the Senior Information Risk Owner (SIRO) and implemented by the responsible officer.

14.2 A breakdown of the incidents by department is as follows:

Department	**2017/18**	**2016/17**
Adults Services	3	1
Children's Services	5	10
CEO	1	0
Environment and Leisure	2	5
Finance and IT	3	4
Growth and Development	1	0
HR, Legal & Governance	12	10
Total	**27**	**30**

14.3 There has been 1 ICO self-reported data breach, and 2 complaints made to the ICO within 2017/18.

Department	**Self-referral or complaint**	**Number**	**Outcome**
HR, Legal & Governance	Self-referral	1	NFA
Adults (via LCFT)	Complaint	1	TBC
Children's	Complaint	1	NFA
Total		3	

15 Key events and achievements during the year

15.1 The annual update for 2017/18 has been limited due to the impact of preparations for the implementation of the General Data Protection Regulations (GDPR). This has taken the priority focus throughout the year, updates for which follow below this section.

15.2 The Council needs to prepare for a potential increase in the number of SARs received once the general public are alerted to the fact that fees are disappearing under GDPR. Whilst we did not make a charge for these requests as a rule, we still reserved the right to make a charge in the acknowledgement, which under GDPR will disappear. As of 10 April 2018 there were 44 outstanding and overdue SARs in Children's Services. Should a complaint be made to the ICO under GDPR, we would be liable for a breach of Article 12. Breaches of any article under GDPR are subject to monetary penalties as well as enforcement action. The ICO would also request to inspect our historical request logs, which would indicate we have not been compliant for some time. Zurich Municipal Insurance conducted an independent review of the issues relating to the compliance with the SAR provision (specifically in People Resource Area). This report is expected to be finalised and recommendations will be issued to Management Board, for awareness and to agree the owners of the recommended action plan.

15.3 In relation to the number of information security incidents reported, the Council have improved their position, encountering 10% fewer incidents than the previous financial year. IG have worked specifically with Children's Services during 2017/18 to improve the way the department handle the large quantities of personal data that they process given that they were responsible for over 33% of recorded incidents in 2016/17. Due to an ongoing programme of targeted work within Children's Services, we have seen a substantial decrease in the number of incidents recorded (by 50%) in 2017/18. For the forthcoming year it would be advisable to repeat this programme of work within HR, Legal and Governance, given that 44% of all incidents recorded for 2017/18 were in this business area. Feedback will be provided in the Quarterly SIRO reports.

15.4 To date the IG team has secured 58 education establishment contracts for the Schools IG SLA for 2018/19. This is a 107% increase on 2017/18. The new support SLA package, including the Data Protection Officer (DPO) Role, and the introduction of the GDPR School template documents, has significantly improved our take up. Schools IG have worked incredibly hard to prepare all the establishments for the impending legislation change. The revenue target for 2018/19 remains set at £20k. We have already surpassed this figure with 'checked out' SLA packages totalling £38,735. As we are further ahead than other surrounding local authorities, we have also been approached by numerous out of borough schools to provide an IG SLA/DPO Service. However, at this point in time we do not have the resource we need to facilitate this and feel that the increased burden on a service already running at full capacity may be to the detriment of the existing schools we support and could even start to affect our corporate performance.

15.5 We have submitted an application for an apprentice post within the team. The first apprentice evening at Witton CLC was well attended and over 25 information packs were issued to interested applicants. We hope to replicate this at the next open evening at Darwen and be given the opportunity to select an appropriate candidate for our team to assist with the ever increasing number of requests and to assist with the ongoing maintenance of GDPR mandatory compliance requirements.

16 GDPR Update

16.1 The GDPR Mandatory Information Asset Register is complete and the Records of Processing Activity (ROPA) is operational in that all the data we have captured so far is uploaded. The privacy audits are 95% complete, with only a few Information Asset Owners that are yet to be engaged.

16.2 The ROPA Database designed by Essex County Council has been transferred to our servers and is currently being reformatted and tested during April 2018 to see if it would be a suitable 'accessible to all' platform for the data we have recorded. If accepted, this will see the start of a corporate rollout programme that will require Information Asset Owner (IAO)/Information Asset Administrator (IAA) training in order for the Mandatory ROPA to be continually kept up to date. A project implementation document will be drafted in order allow for senior management and stakeholder buy in. It will need to be made clear that the responsibility for the maintenance of the ROPA is allocated to each departmental IAO/IAA and recommendations will be made to ensure quarterly reviews and any subsequent updates are recorded in the Senior Information Risk Owner (SIRO) Report.

16.3 The Primary Privacy Notice (PPN) has been drafted and is ready for upload in May 2018. It has been determined that the PPN is of sufficient enough quality to demonstrate that the most basic of processing for standard activities across the Council will comply with the transparency requirements under the GDPR. This is a document drafted with the support of all the members in Association of Greater Manchester Authorities (AGMA) IG Group (of which BWD are a member) and is being rolled out across most authorities within the AGMA Group.

16.4 Service Specific Privacy Notices (SSPN's) are being drafted and uploaded alongside the PPN. These notices will explain in further detail, the arrangements for the processing of special category and other significant data sets that warrant more assurance from our service users. The SSPN's will be created from the data collated in the privacy audits. Communications colleagues are already on board with timescales for the upload.

16.5 The new Data Protection staff training content has been loaded onto the My View Training portal (In Beta). It is still being tested with a view to having any glitches ironed out and rolled out by the beginning of May 2018.

16.6 The latest GDPR briefing was published in Team Talk in April 2018, with links to the relevant IG pages of the corporate intranet for further guidance and information. The Communications team are engaging with an awareness campaign via Metacompliance, there will be voting options on the Metacompliance push to determine awareness across the organisation. Any significant areas of concern will be looked at in conjunction with bespoke awareness campaigns in the specific areas identified, should it be required.

16.7 The IG Manager has attended departmental SLTs and team meetings to advise on the impact of GDPR and to allay any fears or concerns in relation to the impending legislation changes. These have all been well received at present and have assured department leads that any concerns they have relating to non-compliance are being managed accordingly within the GDPR project.

16.8 The procurement team have issued notifications to all personal data processors. Some have been issued with contract addendums to replace DPA 1998 with GDPR and DPA 2018. The agreements are now starting to be returned to the Council and will be logged and recorded. Procurement colleagues have been advised to flag any processing concerns to IG in the event of supplier non-compliance.

16.9 Mandatory Policies, procedures and guidance documents are in the process of being created/refreshed. These will require to be reviewed by SIRO (in the absence of an IG Board/Forum/CRRF) before they can be tabled with HR and LJNCC for approval. The main areas of Focus, where there will be a significant refresh or creation of new policy are in the following areas:

- Data Protection Policy (Refresh);
- Data Protection Impact Assessment Policy/Procedure (New);
- Information Security Policy (Refresh);
- Data Protection Training Policy (New);

- Data Breach Reporting Procedure (Refresh);
- Subject Access Request Procedure (New); and
- Privacy Notice (Refresh).

Other areas of focus will involve refresh of the following:
- Records Management and Retention Policy;
- Data Portability procedure;
- Complaints procedure;
- International data transfer procedure; and
- Training.

16.10 School ROPA/Policies/PPNs and Guidance documents are in the process of being finalised. The School DPO is heavily engaged in dialogue with all the SLA schools and is actively assisting with the implementation of GDPR in each school setting to enable them to be ready for 25th May.

16.11 The Corporate and departmental risk registers have been updated to include known GDPR risks. As the project progresses and the Gap analysis is updated, IG will update the risk register to reflect any amendments.

INSURANCE

17 Insurance Policies

17.1 Following the completion of a competitive tender exercise the Council entered into a long term insurance with Zurich Municipal for its main areas of cover from 1 April 2017. The agreement is for an initial period of three years with an option to extend for a further two years. Terrorism cover is provided separately by a Lloyd's syndicate, via Aon Crisis Management, with other minor policies provided by specialist providers.

17.2 During the year the Principal Insurance Officer has continued to provide advice and support to departments regarding insurance requirements and claims. She has also attended case conferences to discuss the Council's defence of claims. This input has continued to prove a valuable link between the insurer, their appointed solicitors and the Council as it has allowed us to give guidance to solicitors when settlement may be beneficial and to provide detailed technical support to defend cases successfully.

18 Claims Management

18.1 During the year we have continued to provide claims management reports to Directors on a six monthly basis to inform them of the trends in volumes and values of insurance claims and incidents received in respect of their areas of responsibility, along with details of open claims over £50,000. In addition, information relating to motor fleet claims and incidents is provided to the Road Risk Management Group and employer liability claims information is provided to health & safety colleagues. Ad hoc reports are produced for managers on request.

18.2 During 2017/18 the insurance team continued to handle non injury claims in-house. This includes approximately 95 open highways claims at the year end arising from pot holes resulting from the bad weather during the winter. These were all cases where claims have either been refuted or settled in-house following a review of the evidence provided by departments. This approach has benefitted the Council by reducing the claims handling costs of £140 per claim, which would otherwise have been charged by Zurich, and improved customer satisfaction and the Council's reputation by dealing with these claims promptly.

18.3 In addition to these savings, where possible the Team has requested invoices for repairs etc. to be sent direct to the Council in respect of those claims being settled, enabling us to recover the VAT. The team was also able to agree ex-gratia payments in a number of cases, limiting the cost to the Council.

18.4 Zurich Municipal engages local solicitors to assist in defending claims against the Council. The Principal Insurance Officer regularly attends meetings with the solicitors to discuss cases and their defence and they provide detailed information regarding case load management. The solicitors also contest claimants' solicitors' legal fees and costs, saving the Council significant costs. In the last year this has saved £205,552 on costs initially claimed, an average saving of £12,847 (40%) per case. It should also be noted that the 2017/18 costs finally paid have increased by approximately 5.6% compared to 2016/17, to a total of £307,058. Defence costs for the same period were £74,192 (approximately 24.2% of claimants' costs). This is an increase compared to 2016/17 (£28,583). The solicitors have also made significant savings on final settlements to total initial reserves in respect of defended cases in the year amount to £41,062. The outcomes of claims listed for trial are illustrated in the final chart at Appendix 3.

19 Insurance Claims Experience

19.1 Since the implementation of the Jackson reforms in August 2013 we have not experienced any significant increase in the numbers of claims received. Whilst the total number of claims received and incidents reported to the Council during 2017/18 decreased slightly compared to the previous year the number of actual claims against the Council increased in the period. This is due to a number of factors but one area where there has been a significant increase is highways related claims. This is primarily due to the poor winter weather in 2017/18 compared to recent years. We are able to defend the majority of these claims.

19.2 The trends in claims and incidents volumes and values received against the class of business over the last three years are set out in the table and charts in Appendix 2. It should be noted that claims may be received up to three years after the date the event occurred, or in the case of long tail claims, such as noise, hand arm vibration, asbestos and abuse, three years after the person first became aware they have suffered the injury. For claims relating to children, these can be received up to three years after their 18th birthday.

Class of business	No of Incidents		Claims		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
Employers Liability	1	3	21	12	22	15
Motor	13	9	54	56	67	65
Property	16	3	15	18	31	21
Public Liability	82	38	159	218	241	256
Total	**112**	**53**	**249**	**304**	**361**	**357**

19.3 In February 2017 the Government announced a change in the discount rate used to calculate the payments of any long term injury claims under motor, public and employers liability cover. As a result this has led to an increase in the total cost of the open claims and any settlements made for long term post made after 20 March 2017. Insurers announced substantial increases in their claims reserves as a result. Following consultation on the issue during the year a further review of the rate was announced in September 2017. However at this stage it is unclear when any further change will happen.

19.4 We are continuing to work with departments to ensure that relevant documents are retained and investigations carried out so an adequate defence can be maintained against claims received. If there is no documentation or records available we do not have a defence.

20 Municipal Mutual Insurance (MMI)

20.1 A number of years ago the Council was insured by MMI. This company got into financial difficulty and ceased trading in 1992 but maintained the claims arising whilst it was still solvent. In November 2012 the MMI Board of Directors triggered the Scheme of Arrangement as a solvent run-off could no longer be foreseen. After completing discussions with their professional advisers, the Directors concluded that there was no other alternative to insolvent liquidation.

20.2 As a result, control of MMI passed to the Scheme Administrator, Gareth Hughes of Ernst & Young LLP, who, in accordance with the terms of the Scheme, undertook a financial review of the Company and, in consultation with the Scheme Creditors Committee, considered the extent to which any levy is to be imposed upon Scheme creditors.

20.3 Although MMI note that all claims will continue to be paid until a decision on the levy is made and communicated to the Scheme Creditors, all members who have had historic periods of cover with MMI, were urged to urgently consider their financing arrangements for these periods.

20.4 As one of the local authorities who are members of the scheme of arrangement, the Council will be liable to pay any remaining outstanding claims. There are a number of these long tail claims, where the cause is pre 1993, relating to child abuse/failure to remove, asbestos related illness, noise and vibration white finger, which have been subject to numerous legal challenges.

20.5 Predicting ultimate claims cost for occupational diseases arising from past exposure is extremely difficult and whilst the current claw back will be 25% it is possible that there could be further claw back over the next 10 to 20 years, as incurred but not reported claims are translated into reported claims.

20.6 The scheme of arrangement with MMI was always expected to have a clear run-off. However, the Council previously estimated the potential cost to the Council, if the scheme is invoked, could be over £2.0 million at the current calculation, along with any new claims, and this is taken into account when the minimum level of balances is reviewed during the annual budget process, and in assessing contingent liabilities when the Statement of Accounts is prepared.

20.7 As the scheme of arrangement has now been triggered, since 2014 the Council has paid levies totalling 25% (amounting to £494,000) on known claims at the time. A provision of £320,000 has also been established against the possibility of the levy increasing to the maximum estimated amount of 28%, retaining £250,000 as an earmarked reserve towards future claims.

20.8 As a consequence of the levy, since 2014 the Council has been responsible for self-insuring initially 15% and currently 25% of any future claims. The Council is now required to pay all MMI related claims and associated legal costs as and when these are settled and submit invoices to the Scheme Administrator to reimburse the 75% portion they are responsible for.

20.9 The Council receives an annual statement from MMI to update on its liabilities in respect of the Scheme of Arrangement and the Finance department have been kept fully aware of this liability.

4. RATIONALE

Within the Corporate Risk Management Strategy there is a requirement to report annually to the Audit and Governance Committee on the progress of risk management within the Council.

The key issues detailed above provide the members of the Committee with a summary of the elements, key issues and work undertaken by various teams relating to risk management activity across the Council during the year ended 31 March 2018.

The details reported provide assurance to the Committee on the adequacy of the Risk Management Strategy and the associated control environment within the Council.

5. POLICY IMPLICATIONS

As indicated above, this report is part of the requirements of the Corporate Risk Management Strategy. These requirements are constantly being reviewed and updated to reflect the changes that have taken place in respect of the risk management arrangements within the Council.

6. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

7. LEGAL IMPLICATIONS

There are no direct legal implications from this report.

8. RESOURCE IMPLICATIONS

There are no direct resource implications from this report.

9. EQUALITY AND HEALTH IMPLICATIONS

The decisions to be taken do not change policy and do not require any further consideration in respect of equality or health issues.

10. CONSULTATIONS

Members of the Primary Assurance Group.

CONTACT OFFICER:	Colin Ferguson, Head of Audit & Assurance
DATE:	11 July 2018
BACKGROUND PAPERS:	Corporate Risk Management Strategy and Framework 2015/20

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**24 July 2018**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT **Counter Fraud Annual Report 2017/18**

1. PURPOSE

1.1 To inform the Audit & Governance Committee of the results of the counter fraud activity that has been carried out during the year ended 31 March 2018 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.

2. RECOMMENDATIONS

2.1 The Committee is asked:

- to consider the Counter Fraud Annual Report (as set out in Appendix A) as part of its monitoring role.

3. BACKGROUND

3.1 The Council is committed to the principles of good governance and recognises the importance of operating in an open and accountable manner, whilst demonstrating high standards of conduct. The Council expects all its stakeholders (including its councillors, employees, partners and contractors) to act honestly, with integrity and to safeguard the public purse. The Council does not accept any fraud or corruption and any identified case will be thoroughly investigated and appropriately dealt with.

3.2 The Audit & Governance Committee has a role in helping the Council to implement the values of good governance, including effective arrangements for countering fraud and corruption risks. To achieve this the Committee's terms of reference include responsibility to ensure that the Council maintains a robust counter fraud culture via the implementation of the counter fraud strategy. The Strategy is backed up by effective controls and procedures, which define the respective roles of management and Audit & Assurance.

3.3 The Council's Counter Fraud Strategy was reviewed and updated in 2016 to ensure that it provided an effective structure and approach to ensure that the counter fraud arrangements in place within the Council reflected latest guidance and best practise and are embedded into the everyday processes of financial management activity and decision making within the Council.

3.4 The Strategy includes a requirement that an annual fraud report is prepared that includes and evaluation of the success of the strategy in achieving its objectives.

4. RATIONALE

4.1 The Annual Counter Fraud Report provides the Committee with assurance on the effectiveness of the counter fraud arrangements in place within the Council in its roles of reviewing the assessment of fraud risks and potential harm to the Council from fraud and corruption and ensuring the Council maintains a robust counter fraud culture via the implementation of the Counter Fraud Strategy.

5. KEY ISSUES

5.1 It is one of the requirements of the Accounts and Audit (England) Regulations 2015 that the Council must have measures in place ‘to enable the prevention and detection of inaccuracies and fraud’.

5.2 The attached report (see Appendix A) provides a summary of the work undertaken during the year which supports the overall conclusion on the measures in place relating to this area.

6. POLICY IMPLICATIONS

6.1 This report is part of the requirements of the Counter Fraud Strategy. These requirements are periodically reviewed and updated to reflect the changes that have taken place in respect of the counter fraud arrangements within the Council.

6.2 It is also contributor to the Annual Governance Statement, which assesses the effectiveness of the Council’s own management of its policy objectives.

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

8.1 There are no direct legal implications from this report.

9. RESOURCE IMPLICATIONS

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

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

10.1 There are no equality or health implications arising as a result of this report.

11. CONSULTATIONS

11.1 This report has been discussed with the Council's Primary Assurance Group.

Contact Officer:	Colin Ferguson, Head of Audit & Assurance – Ext: 5326
Date:	11 July 2018
Background Papers:	Counter Fraud Strategy 2016/20

Appendix A

Blackburn with Darwen Borough Council

Counter Fraud Annual Report 2017/18

Audit & Assurance
Finance & Customer Services Department
July 2018

1. Background

1.1. The Council is committed to ensuring that opportunities for fraud and corruption are reduced to the lowest possible level through a combination of the following:

- Acknowledging and understanding fraud risks, and the harm they cause to the organisation, its objectives and service users, and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response;
- Preventing and detecting fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture; and
- Responding by punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

1.2. The purpose of this report is to present the work carried out during the past financial year to minimise the risk of fraud, bribery and corruption across the Council. This supports the requirements of the Accounts and Audit Regulations (England) 2015 which states that the Council must have measures in place 'to enable the prevention and detection of inaccuracies and fraud'.

1.3. The report also sets out planned work for 2018/19 and highlights some of the current areas of fraud risk.

2. Key mechanisms – policies and procedures

2.1. Effective policies and procedures are essential to ensure that all officers and members are aware of their roles and responsibilities in identifying and managing the risk of fraud. All policies and associated documents are available on the Council's intranet.

Whistleblowing Policy

2.2. The Council has an up to date Whistleblowing Policy available to all staff and members.

Counter Fraud Strategy

2.3. The Counter Fraud Policy Statement and Counter Fraud Strategy 2016/21 were updated and approved in 2016.

Fraud Risk Register

2.4. To enable managers to identify and mitigate fraud risks a fraud risk register was created in 2016/17. Work was undertaken with service managers in 2017/18 to ensure that risk owners review and update the fraud risks for which they are responsible.

Reporting and awareness

2.5. Audit & Assurance reports to the Audit & Governance Committee on a regular basis with corporate fraud updates.

2.6. The Council subscribes to the National Anti-Fraud Network (NAFN), which promotes the sharing of information between Authorities and publishes regular bulletins on fraud cases and attempted scams. These fraud alerts are then cascaded to ensure that key officers receive key messages and take appropriate action where appropriate. In addition, the Lancashire Chief Audit Group shares information and alerts regarding potential scams which are being attempted, or have been carried out in the region, as and when these are identified locally. These are also cascaded to relevant departments and highlighted on the Council's website where appropriate. Fraud cases are also discussed at the Group's meetings.

2.7. A fraud awareness training course is available on the Council's e-learning portal. This course has been undertaken by 182 people since its introduction (96 people during 2017/18) and Audit & Assurance continue to promote the course during its engagements with departments and schools. Members of the Audit & Governance Committee have also been provided with a copy of the CIPFA Counter Fraud Workbook for Councillors during the year. This has been produced by CIPFA and the Local Government Association. It is designed as a learning aid on this area for elected members and includes guidance, challenges cases studies and links to other information on this area.

3. Risk based planning to minimise the risk of fraud

3.1. The annual audit planning process includes consideration of the fraud risk. The 2017/18 Annual Audit Plan, approved by the Audit & Governance Committee in April 2017, included provision to support a programme of proactive work that minimises the risk of loss to the Council. The annual plan also includes an allocation of time for reactive investigations.

4. Work and investigations carried out in 2017/18

National Fraud Initiative (NFI)

4.1. The Council is required by law to provide set data to the Cabinet Office who administers this national data matching exercise. The returned data matches identify anomalies for further review. Audit & Assurance co-ordinate the exercise and carry out further review of certain reports including Payroll anomalies and suspected fraudulent Council Tax Support claims. A total of 8,837 data matches were received from the Cabinet Office as part of the 2017 exercise. Of these, 4,402 were highlighted as 'recommended matches' which the Cabinet Office suggests are prioritised for review. The results of work undertaken show that 2,581 data matches have been processed to date. A total of 467 fraud/errors have been found resulting in savings of £229,413. The table below illustrates the main areas of activity and where savings have been identified.

Summary of Results

Area	No. of Frauds/Errors	Value (£)
Benefits (Housing/Council Tax Support)	28	£60,904
Council Tax Single Persons Discount	323	£87,348
Private Residential Care Homes	2	£10,778
Taxi Licences revoked	3*	N/A
Blue Badges/Residents Parking Permits	107	£57,423*
Housing waiting list*	4	£12,960

TOTAL	**467**	**£229,413**

*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.

*B-with-us (Together Housing Group) manages the housing waiting list across a Pennine Lancashire sub-region which includes BwD. We identified 4 cases which required the removal of the applicant from the housing waiting list. The Cabinet Office attaches a financial value of £3,240 per case where the applicant is removed from the waiting list. This figure is used in the table above.

4.2. The Council received additional reports from the Cabinet Office on 23 February 2018 which included 5,716 Council Tax Single Person Discount data matches for further review. The reports were generated after council tax records were matched with various data sets including the electoral register. The matches indicate that entitlement to Single Persons Discount is incorrect and further enquiries need to be made. The reports have been forwarded to the Revenues section for further action.

Direct Payments Fraud

4.3. Direct Payments are made to Council service users which allow them to pay for their own assessed social care needs as an alternative to the Council directly providing or commissioning those services. Audit & Assurance has undertaken several investigations in the past into suspected Direct Payments fraud, including a case during 2017/18. In one case, the Council is pursuing a prosecution in relation to a suspected overpayment of £40,000. A decision is awaited from the Crown Prosecution Service regarding this. The 2017/18 audit plan made provision for a review of the Direct Payments system to assess the adequacy and effectiveness of the controls in this area. An audit was carried out and a report was issued to management in January 2018. The report highlighted a number of issues surrounding compliance with internal controls and a limited assurance opinion was given. The report contained 14 recommended improvements, all of which were accepted by management who provided an action plan to implement the recommendations.

Grant Fraud

4.4. Audit & Assurance investigated a suspected grant fraud following a whistleblowing complaint made in April 2017. The allegation concerned the over-ordering and selling on of materials for profit by a contractor. The review identified a small overstatement of materials ordered to what was actually used on jobs. Given the size of the scheme this was considered to be within an acceptable tolerance range and there was no evidence to suggest fraud.

Other investigations and counter fraud activity

4.5. Audit & Assurance has also conducted two further investigations which were carried out following the receipt of Members Conduct Complaints. One complaint related to potential financial irregularities and the other included an allegation of corruption and fraud. In both cases, there was no evidence of fraud or corruption found. In one case, several recommendations were made to improve the financial controls and administrative practices surrounding the management of an annual supported Council event. The recommendations were accepted by management.

4.6. During the year Audit & Assurance also investigated the circumstances relating to a petty cash discrepancy of £286, which was identified during the performance of the monthly reconciliation process in a Department. We considered if this had occurred as a result of misappropriation of funds. The cause of the discrepancy could not be determined because of a number of weaknesses which were identified in the controls and procedures in place and a number of recommendations were made to address the issues raised.

4.7. We also carried out a review of the financial controls and procedures in operation in a Nursery setting at the request of Children's Services. Although our work identified a number of significant weaknesses in the financial controls and procedures in place we did not find any evidence that these had led to any fraud occurring. The report on the findings contained a number of recommendations to strengthen the internal control framework in place.

4.8. Audit & Assurance is currently undertaking an investigation concerning the management and approval of Council expenditure and the disposal of Council assets. An update will be provided to Members of the Audit Committee in due course.

5. Priorities for 2018/19

5.1. The 2018/19 Internal Audit Plan makes provision for the following counter fraud activity during the year:

- National Fraud Initiative – co-ordination of the exercise and investigation into data matches;
- A review of the Counter Fraud Strategy;
- Reactive fraud investigations; and
- Development of a pro-active plan of work.

6. Conclusion

6.1. The range of activities and incidents covered in this report highlights the extent to which fraud and error exist as risks to the achievement of the Council's objectives. Our conclusion is that the Council had effective measures to enable the prevention and detection of fraud and irregularities. Work will continue in 2018/19 to ensure that the Council has all the necessary policies and procedures in place to create and promote an environment where fraud, bribery and corruption are not tolerated.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**24 July 2018**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT **Annual Internal Audit Opinion Report 2017/18**

1. PURPOSE

To allow the Audit & Governance Committee to fulfil its role and function of providing independent assurance to the Council.

2. RECOMMENDATIONS

The Committee is asked:

- to note the content of the Annual Internal Audit Opinion Report for 2017/18 (as set out in Appendix A);
- to consider the overall annual opinion of the Head of Audit & Assurance, which is that **adequate assurance,** can be placed upon the Council's framework of governance, risk management and internal control; and
- to note that the internal audit work that supports this opinion has been delivered in accordance with the Public sector Internal Audit Standards (PSIAS) and that there are no significant areas of non-conformance.

3. BACKGROUND

The internal audit function is required to comply with the PSIAS.

The PSIAS require the Head of Internal Audit to present an Annual Opinion Report to the Audit & Governance Committee, which gives an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. The report should be timed to support the production of the Council's Annual Governance Statement (AGS).

4. RATIONALE

The Audit & Governance Committee, in its role of providing independent assurance to the Council on the adequacy of its risk management framework, overall governance and the associated control environment is required to consider the Annual Internal Audit Opinion Report.

5. KEY ISSUES

The Council is required under the Accounts and Audit (England) Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards.

The attached report complies with the requirements of the PSIAS. It includes a summary of the work that supports the opinion, discloses any qualifications to the opinion together with reasons for qualifications, discloses any impairments or restrictions in scope and compares actual work with planned work. It also states whether the work has been undertaken in conformance with PSIAS, the results of any Quality Assurance Improvement Programme (QAIP), summary of actual performance against targets/measures and any issues that are considered relevant to the preparation of the AGS.

6. POLICY IMPLICATIONS

This report is a key contributor to the Annual Governance Statement, which assesses the effectiveness of the Council's own management of its policy objectives.

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

This report fulfils the statutory requirements placed upon by the Council by the Accounts & Audit (England) Regulations 2015.

9. RESOURCE IMPLICATIONS

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

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

There are no equality or health implications arising as a result of this report.

11. CONSULTATIONS

The issues raised in this report have previously been reported to Directors following the completion of audit assignments. Summaries of the issues identified have previously been reported to the Audit & Governance Committee during 2017/18.

This report has been discussed with the Council's Primary Assurance Group.

Contact Officer:	Colin Ferguson, Head of Audit & Assurance – Ext: 5326
Date:	11 July 2018
Background Papers:	2017/18 Annual Audit & Assurance Plan, Strategic Statement and Internal Audit Charter, Audit & Assurance - Progress & Outcomes Committee reports, Audit & Assurance reports and files.

Appendix A

Blackburn with Darwen Borough Council

Annual Internal Audit Opinion Report 2017/18

Audit & Assurance
Finance & Customer Services Department
July 2018

CONTENTS:

SECTION 1 – BACKGROUND

1.1 Introduction

1.2 Role of Internal Audit

1.3 Objectives and Scope of Internal Audit

SECTION 2 – INTERNAL AUDIT OPINION

2.1 Arriving at the Opinion

2.2 Work Supporting the Opinion

2.3 Our Opinion

2.4 Qualifications to the Opinion

2.5 Impairments/Restrictions in Scope

SECTION 3 – INTERNAL AUDIT PERFORMANCE/QUALITY ASSURANCE

3.1 Comparison of Actual and Planned Work

3.2 Key Achievements 2017/18

3.3 Key Performance Information

3.4 Benchmarking

3.5 Quality Assurance

3.6 Statement of Conformance with PSIAS

3.7 Improvement Plans for 2018/19

SECTION 4 – ANNUAL GOVERNANCE STATEMENT

4.1 Criteria for Identifying Issues Relevant to the Annual Governance Statement

4.2 Issues Relevant to the Preparation of the Council's Annual Governance Statement

APPENDICES

1 Audit & Assurance Plan & Actual 2017/18

2 Summary Quality Assurance & Improvement Programme Activities

SECTION 1 – BACKGROUND

1.1 Introduction

1.1.1 This report details the cumulative activities undertaken by the Council's Audit & Assurance (Internal Audit) section of the Finance & Customer Services Department during the period 1 April 2017 to 31 March 2018. It highlights key issues and themes in respect of the Council's risk management, governance and internal control frameworks. The activities undertaken by the section are primarily directed by a risk-based audit plan, which takes into account the Council's organisational objectives and priorities.

1.1.2 This report is intended to provide the Audit & Governance Committee with:

- an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control;
- a summary of the work that supports the opinion;
- any qualifications to the opinion together with reasons for the qualifications;
- any impairments or restrictions in scope of the work undertaken;
- a comparison of the audit work actually undertaken with the work planned, including a summary of its performance and quality assurance;
- a declaration that work undertaken is in conformance with the Public Sector Internal Audit Standards (PSIAS); and
- details of any issues particularly relevant to the preparation of the Council's Annual Governance Statement (AGS).

1.1.3 This report meets the requirements for Internal Audit to provide an annual internal opinion on the overall adequacy of the Council's framework of governance, risk management and control, as detailed in the PSIAS and demonstrates that the Council is maintaining an adequate and effective system of internal audit as required by the Accounts and Audit (England) Regulations 2015.

1.2 Role of Internal Audit

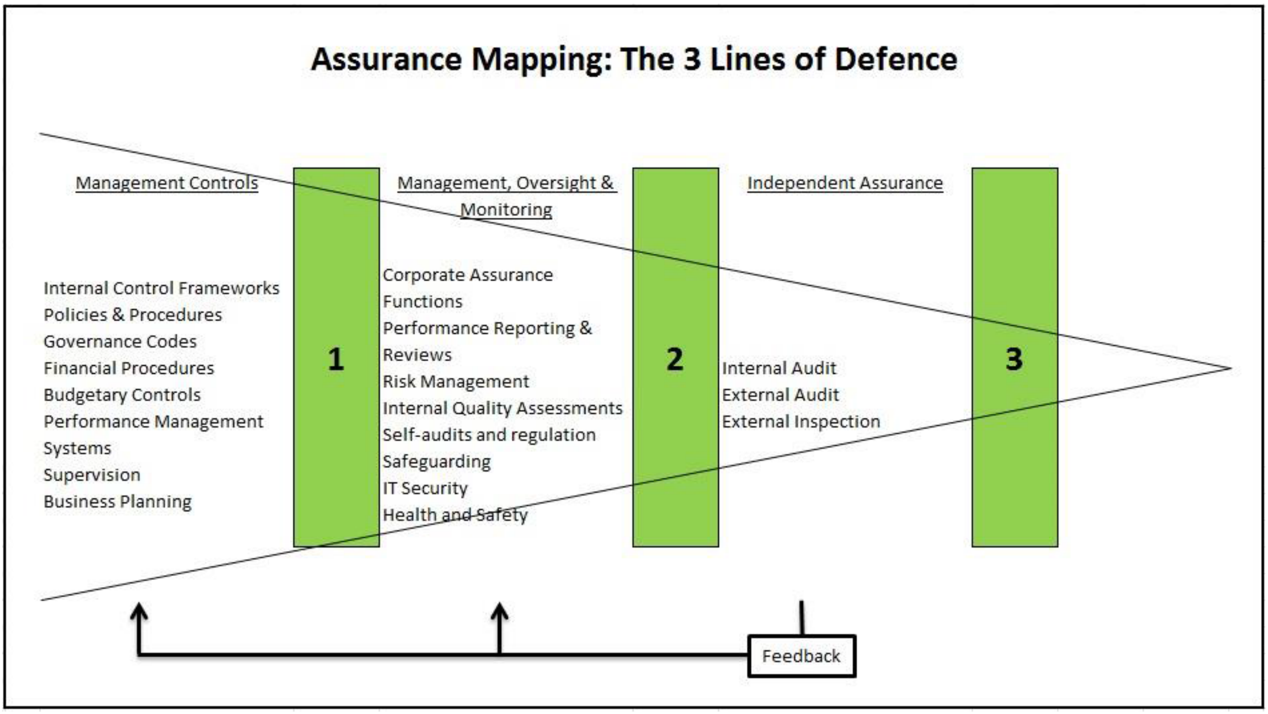
1.2.1 The statutory basis for Internal Audit in local government is the Accounts and Audit (England) Regulations 2015, which state that each authority must:

'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards.'

1.2.2 Internal audit work is governed by the PSIAS. The Internal Audit Team has adopted the PSIAS definition of internal audit, which is:

"Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

1.2.3 It should be remembered that internal audit is the Council's 'third line of defence in a model where management and management controls represent the first line, with responsibility for directly assessing, controlling and mitigating risks in accordance with the Council's control frameworks and procedures. In-service compliance functions confirming the operation of these controls represents the second line of defence. Where such 'second line' compliance functions are available, we focus our audit work on assessing the control exerted by them rather than on repeating their work. This model is illustrated in the table below:



1.3 Objectives and Scope of Internal Audit

1.3.1 The objectives and scope of Internal Audit are set out in the Internal Audit Charter. The Charter is reviewed biennially by the Audit & Governance Committee and was re-approved on 11 April 2017. The Charter complies with the requirements of the PSIAS. No changes were identified as being required during 2017/18. The emphasis placed on Internal Audit's role in reviewing areas both financial and non-financial represents the profession's best practice and enables Internal Audit to give an opinion on the adequacy of all of the Council's systems of risk management, control, and governance.

SECTION 2 – INTERNAL AUDIT OPINION

2.1 Arriving at the Opinion

2.1.1 The overall opinion on the Council's systems of risk management, control and governance is based on Internal Audit's assessment of the Council's key management arrangements. This is the framework required to provide management with confidence that the main processes to achieve these business objectives are:

- Adequate and effective for their purpose; and
- Free from material business risk, both financial and non-financial.

2.1.2 In providing our opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses within these systems.

2.1.3 Our opinion on the systems of risk management, control and governance within the Council has been formulated by giving careful consideration to following:

- Planned work undertaken during 2017/18;
- Unplanned work undertaken during 2017/18;
- Follow ups of audit work undertaken during 2016/17 and 2017/18; and
- Other sources of assurance relevant during 2017/18.

2.2 Work Supporting the Opinion

Planned Work:

2.2.1 The Audit & Governance Committee approved the Audit & Assurance Plan for the year to 31 March 2018 at its meeting on 11 April 2017.

2.2.2 Each Internal Audit report provides two areas of assurance: (i) an opinion on the control environment based on the internal controls identified in place; and (ii) an opinion on compliance regarding the application of those controls. The level of assurance given is derived from the findings and based on the following definitions:

Exhibit 1: Internal Audit Reporting Definitions

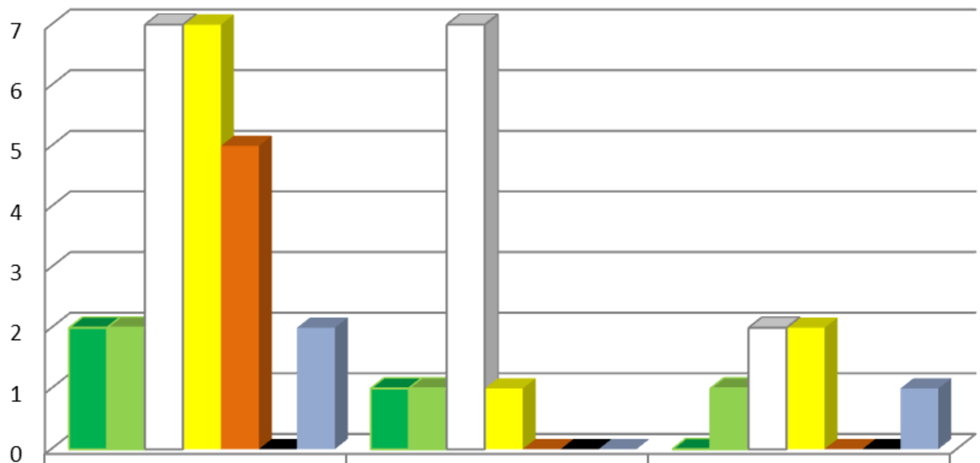
Control Environment Assurance		
	Level	**Definition**
1	SUBSTANTIAL ASSURANCE	There are minimal control weaknesses which present very low risk to the control environment.
2	ADEQUATE ASSURANCE	There are some control weaknesses which present a medium risk to the control environment.
3	LIMITED ASSURANCE	There are significant control weaknesses which present a high risk to the control environment
4	NO ASSURANCE	There are fundamental control weaknesses which present an unacceptable level of risk to the control environment.
Compliance Assurance		
	Level	**Definition**
1	SUBSTANTIAL ASSURANCE	The control environment has substantially operated as intended although some minor errors have been detected.
2	ADEQUATE ASSURANCE	The control environment has mainly operated as intended although errors have been detected.

3	LIMITED ASSURANCE	The control environment has not operated as intended. Significant errors have been detected.
4	NO ASSURANCE	The control environment has fundamentally broken down and is open to significant error or abuse.

2.2.3 The assurance levels taken from the audit reports issued and reported to the Audit Committee during 2017/18 across the categories of risk management, internal control and governance are detailed in Appendix 1 attached.

2.2.4 Internal Audit has completed and formally reported upon 41 assignments including 25 internal control assignments, 10 risk related assignments and 6 governance assignments which support our overall opinion on the Council's systems of risk management, governance and internal control. A summary of the assurance levels that support our opinion are as follows:

Exhibit 2: Summary of Internal Audit Opinions 2017/18

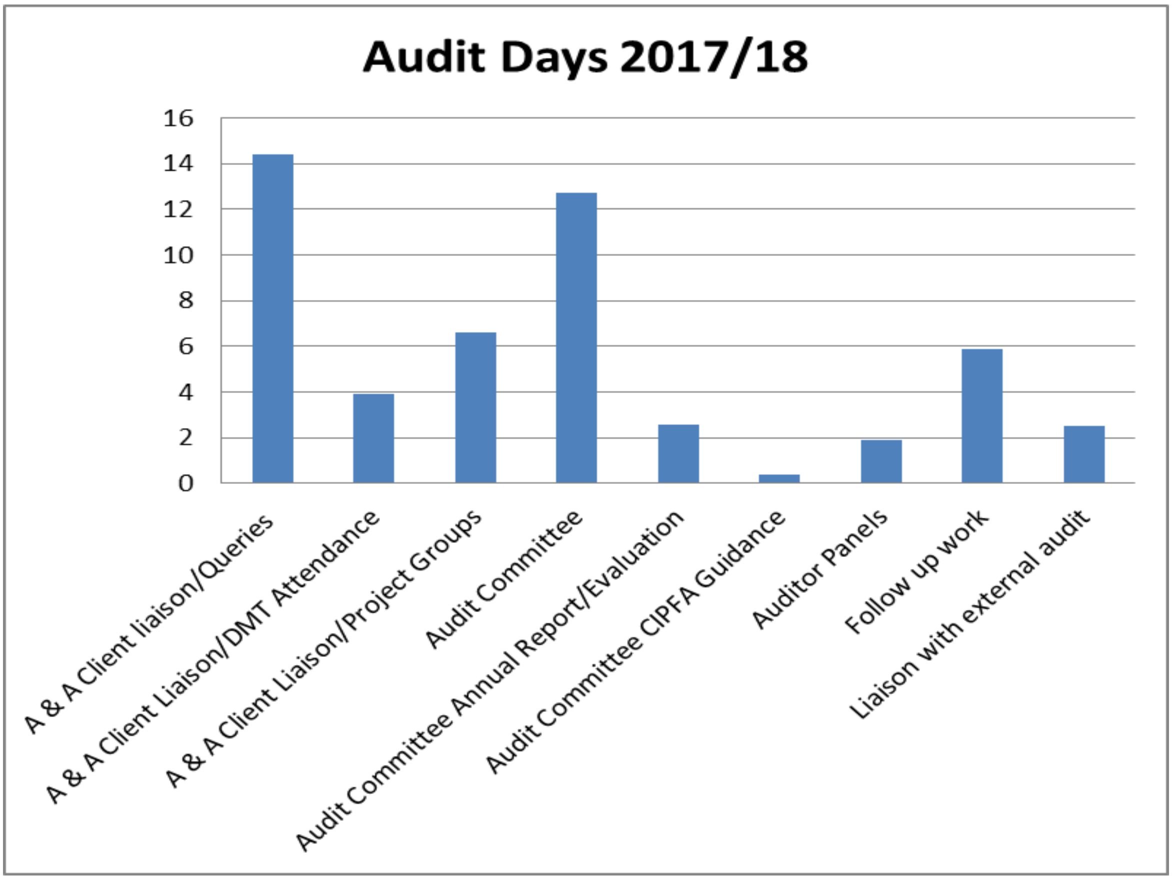


	Control	Governance	Risk
Substantial	2	1	0
Part Substantial	2	1	1
Adequate	7	7	2
Part Limited	7	1	2
Limited	5	0	0
No	0	0	0
NA	2	0	1

Other/Unplanned Work:

2.2.5 During the year we have carried out a number of other activities/unplanned audit work and provided advice and assistance to managers, departments and schools on a number of areas. A total of 51 audit days has been spent on these areas as illustrated in the chart on the next page.

Exhibit 3: Summary of Other/Unplanned Work 2017/18



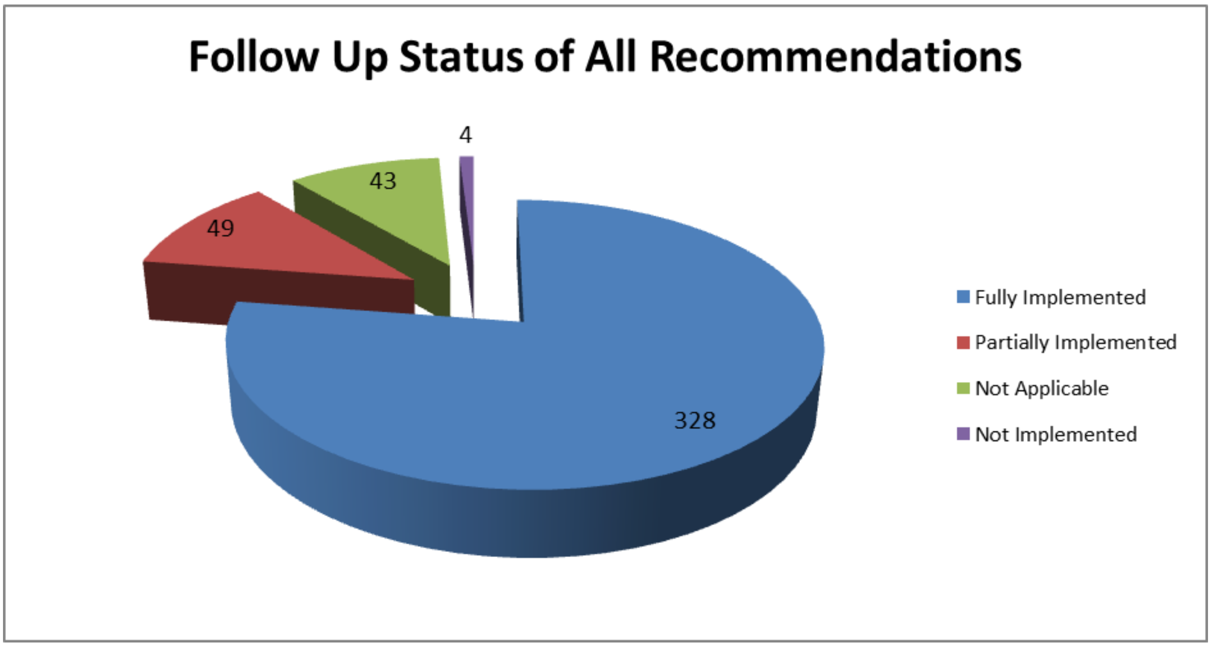
2.2.6 Our other/unplanned work can be categorised as follows:

- Supporting the Audit Committee (13 days);
- Liaison with departments/DMTs, external audit and responding to general requests from managers for advice/guidance (24 days);
- Specific activity on new systems and programmes or other cross cutting working groups and boards (6 days);
- Monitoring the implementation of reported recommendations (6 days); and
- Auditor Panels (2 days).

Follow Ups:

2.2.7 Where we issue a *limited* or *no* assurance report we undertake "standard" follow ups after 3 months. For all other assurance reports we undertake a "standard" follow up after 6 months. In 2017/18 we followed up a total of 424 recommendations, which comprised 117 "Must", 285 "Should" and 22 "Consider" recommendations. The responses to the follow up reports are summarised in the chart on the next page.

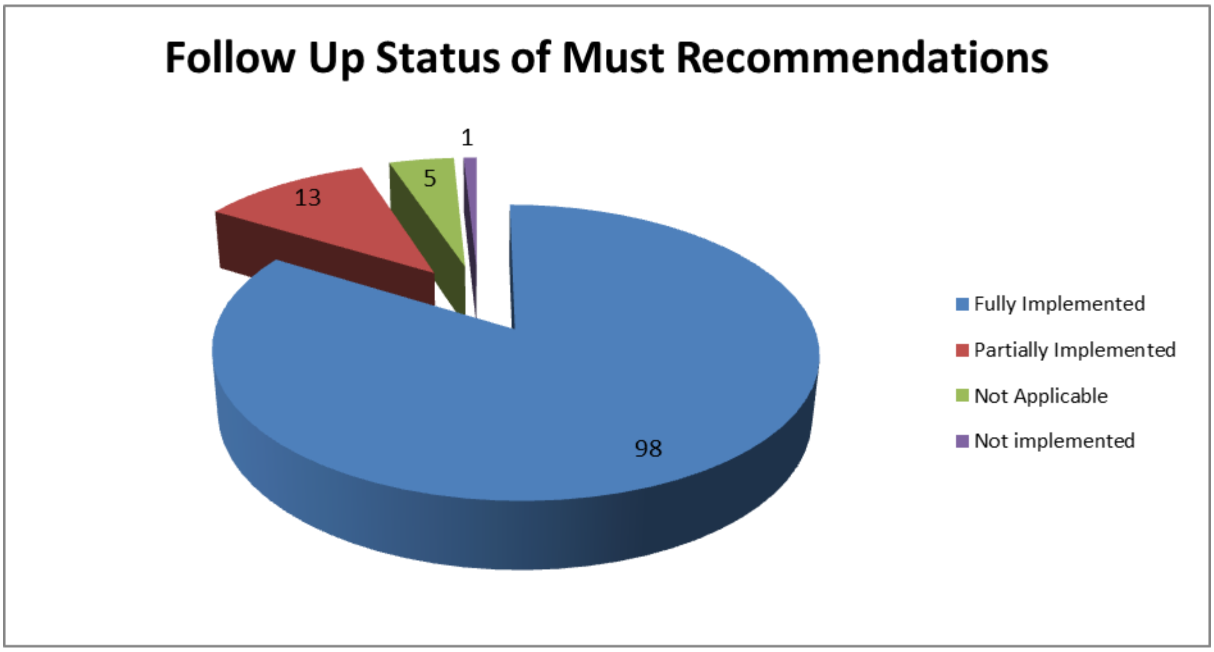
Exhibit 4: Follow Up Status of All Recommendations 2017/18



2.2.8 The non-implemented recommendations were reported to the Audit & Governance Committee during the year. We received appropriate explanations for those recommendations not being implemented within agreed timescales.

2.2.9 Further analysis of the highest priority “must” recommendations has identified that only one recommendation (0.8%) was not implemented. The results of the follow up of agreed recommendations are included in the Audit & Assurance Progress Reports presented to each Audit & Governance Committee meeting for consideration. This includes explanations where of any responses to follow ups undertaken have not received at the time of the report and any recommendations which have not been implemented.

Exhibit 5: Follow Up Status of Must Recommendations 2017/18



2.2.10 Where we have particular concerns about the implementation of recommendations we will undertake further "physical" follow up exercises where documentation will be reviewed and further testing undertaken.

Other Sources of Assurance:

2.2.11 In addition to the internal audit work carried during the year, we have gained assurance on a number of the Council's processes from other internal and external sources. The sources of assurance include:

- The Council's Management Accountabilities Framework (MAF) reporting arrangements and challenge process;
- The annual Directors' assurance certificates;
- The external auditor's annual audit letter and certification report; and
- The reports from the inspections by Ofsted and the Care Quality Commission of the Council's services. We also consider relevant school Ofsted inspection reports when carrying out our school visits.

2.2.12 The "red" priority thematic areas of concern from the MAF are reported to the Audit & Governance Committee on a six monthly basis. The reporting of the half year "red" areas did not identify any further challenges from the Audit & Governance Committee. The results of the year end exercise are reported to the July Committee meeting.

2.2.13 All Directors and the Deputy Chief Executive are required to complete a statement of assurance on governance arrangements, including risk management and internal control each year for their areas of responsibility as part of the process to produce the Council's Annual Governance Statement. Completed statements of assurance were received from all these officers and each confirmed that they were satisfied that "effective governance arrangements are in place, including a sound system of internal control throughout the year ended 31 March 2018 and is ongoing".

2.2.14 In October 2017 the Council's external auditors (Grant Thornton) reported: "We gave an unqualified opinion on the Council's accounts on 25 September 2017". Following their interim work for 2017/18, Grant Thornton reported to the Audit & Governance Committee in April 2018 that they were able to state that their work "has not identified any weaknesses which impact on our audit approach". They also noted that their work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements. Their testing was on going at the time of the report but they had not identified any concerns they needed to bring to the Committee's attention at that time.

2.2.15 The External Auditors also completed a high level review of internal audit's overall arrangements and its work on the Council's key financial systems. Their work did not identify any issues to bring to the Committee's attention, or any significant weaknesses impacting on their responsibilities. Overall they concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.

2.2.16 Following an inspection in September 2017 Ofsted concluded that services for children and young people in Blackburn were good. The report noted that the Director of Children's services and her senior management team have an accurate view on the strengths and the areas needing further development in the service. Specifically in respect of leadership, management and governance the inspectors commented that the senior management team have focussed well on improving children's services since the last inspection. This included a framework for social work practice based on recognition of the risks and strengths within families and ensuring the child's voice is at the centre of all decision making.

2.2.17 Ofsted judged 75% of local authority residential homes and children's centres as good or outstanding. There are eight judgements relating to children's centres and four for residential homes. Of these, nine have been judged good or better on their most recent inspections, with one, Apples Trees, being outstanding. Two judgements reduced from the previous inspection result.

2.2.18 With regards to schools, 80% of learners attend schools judged good or better by Ofsted. Since April 2017, 22 Primary Schools, 6 Secondary schools, 2 Nursery Schools and one Special School in the Borough have been inspected (slightly less than half of all the schools in Blackburn with Darwen). Of these schools, 19 were judged to be good, two were judged outstanding, nine were judged to require improvement to be good; and one was judged inadequate. Six of these judgements represented improvement on the previous inspection outcome for the school, six represented a fall; 15 schools stayed the same as in their previous judgement and three schools had no previous judgement.

2.2.19 The impact of the inspection activity is that the proportion of pupils attending schools judged good or better fell to 80% - 7% beneath the national average, and 5% beneath the regional average. This fall stems from a particular concentration by Ofsted during the current academic year on schools felt to be vulnerable on the basis of data analysis. The figure has also been lowered by the inspection of converted academies where the predecessor school had been deemed to be inadequate. Previously, these schools as new schools were not deemed to have a current inspection grade and were therefore not counted in the calculation for the borough as a whole. At inspection all of these successor schools were judged to still require improvement to be good, which in turn lowered the percentage overall for the borough.

2.2.20 Having noted all of the above, it is striking that while the overall achievement of Blackburn with Darwen pupils at the end of Primary and Secondary school is relatively strong within the region (& nationally), the inspection grades for local schools lags behind and is less positive.

2.2.21 In 2016/17 we participated in the CIPFA risk management benchmarking exercise to self-assess the Council's risk management arrangements. This considered the arrangements in place for seven strands of risk management activity. The results showed that the Council was at the 'working' level (45 -70%) for four of the seven areas and 'embedded and integrated' for three remaining strands (70 – 85%). This compares favourably with the 2015/16 results using the AON Risk maturity tool. This showed that the Council's risk maturity score was 3.5, which equates to a 'defined to operational' level of maturity. This is an increase from the previous risk maturity score of 2.5.

2.2.22 Our planned work, other/unplanned work, follow ups and other sources of assurance has not identified any serious concerns in relation to the Council's systems of risk management, control and governance.

2.3 Our Opinion

On the basis of the evidence reviewed, explanations received and the processes reported upon during 2017/18 together with the other sources of assurance available to Internal Audit it is considered that the Council has **adequate** systems of risk management, control and governance, which are being applied to an **adequate** standard.

2.4 Qualifications to the Opinion

2.4.1 In providing the overall opinion consideration is given to the assurance opinions provided during 2017/18 in respect of audits identified in the approved plan as priority 1 risk areas or on functions which have been identified as corporate risks. There is one assurance opinion which should be considered in the context of the overall opinion provided above.

2.4.2 The main qualification to the overall opinion is:

Risk Management:

2.4.3 **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.

2.4.4 In providing this opinion we acknowledged that management had already identified many areas of improvement, including several of the above and was developing a new forecasting model at the time the report was finalised. This area will be subject to a further review as part of the 2018/19 internal audit plan.

2.5 Impairments/Restrictions in Scope

2.5.1 No limitations have been placed on the scope of work carried out by Internal Audit during 2017/18. Audit recommendations have been made based on the findings from each review. These have been discussed and agreed with the managers responsible for each area reviewed. Action plans have been agreed for each audit report issued. Implementation of the recommendations, as per the agreed action plans, is followed up to confirm that the agreed recommendations have been implemented.

2.5.2 We are able to confirm that the Head of Audit & Assurance has line management responsibility for other operational areas. Internal auditors had no direct operational responsibility or authority over any of the activities audited in 2017/18. We can therefore confirm the organisational independence of the Internal Audit activity.

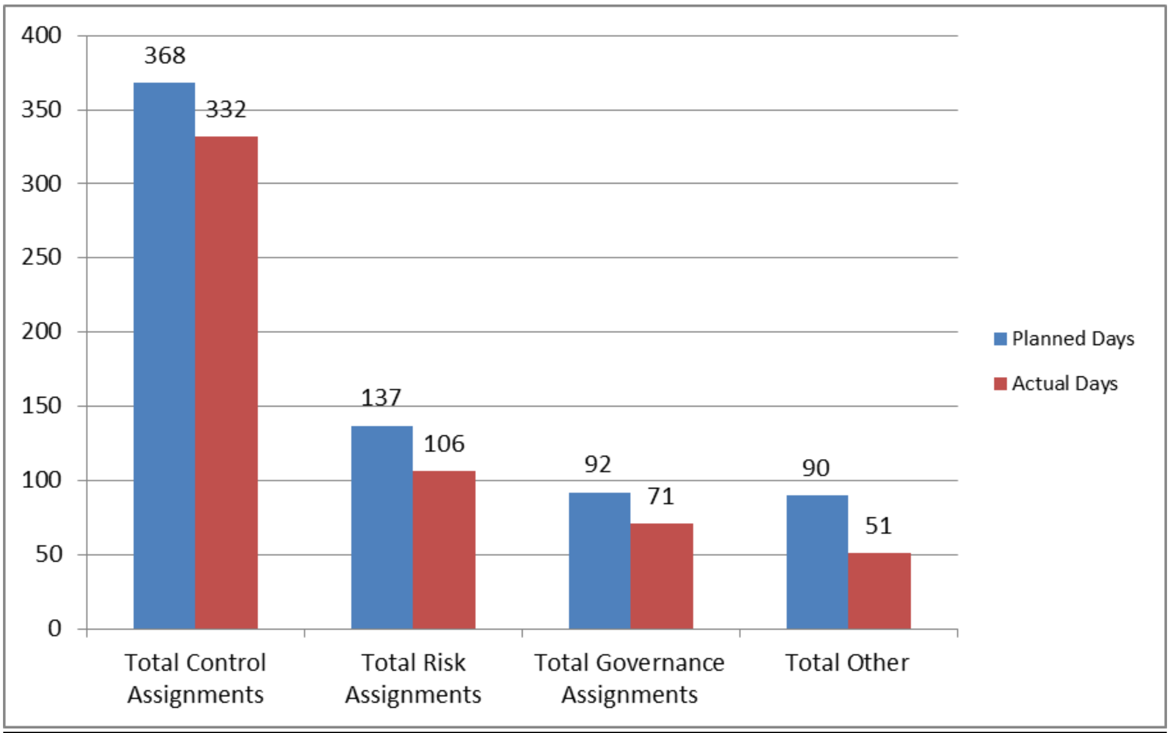
SECTION 3 – INTERNAL AUDIT PERFORMANCE/QUALITY ASSURANCE

3.1 Comparison of Actual and Planned Work

3.1.1 The Audit & Assurance Plan was approved by the Audit Committee on 11 April 2017 and it was then anticipated that Audit & Assurance would have staff resources amounting to 687 days for internal audit assignments.

3.1.2 Internal Audit was able to deliver a total of 560 days (81.5%) against the approved Audit & Assurance Plan of 687 days, which can be summarised as follows:

Exhibit 6: Audit & Assurance Plan Against Actual 2017/18 (Days Achieved)



3.1.3 A revised Audit & Assurance Plan (reduced to an estimated 676 days for internal audit activity) was approved by the Audit Committee on 9 January 2018. This reduction was due to the following resourcing issues:

- the Audit & Assurance Apprentice post being vacant for 6 weeks due to the previous post holder finding permanent job prior to the end of his fixed term contract;
- additional unplanned time being required to carry out investigations into potential fraud or irregularities; and
- extra time in dealing with staffing and recruitment matters within the team.

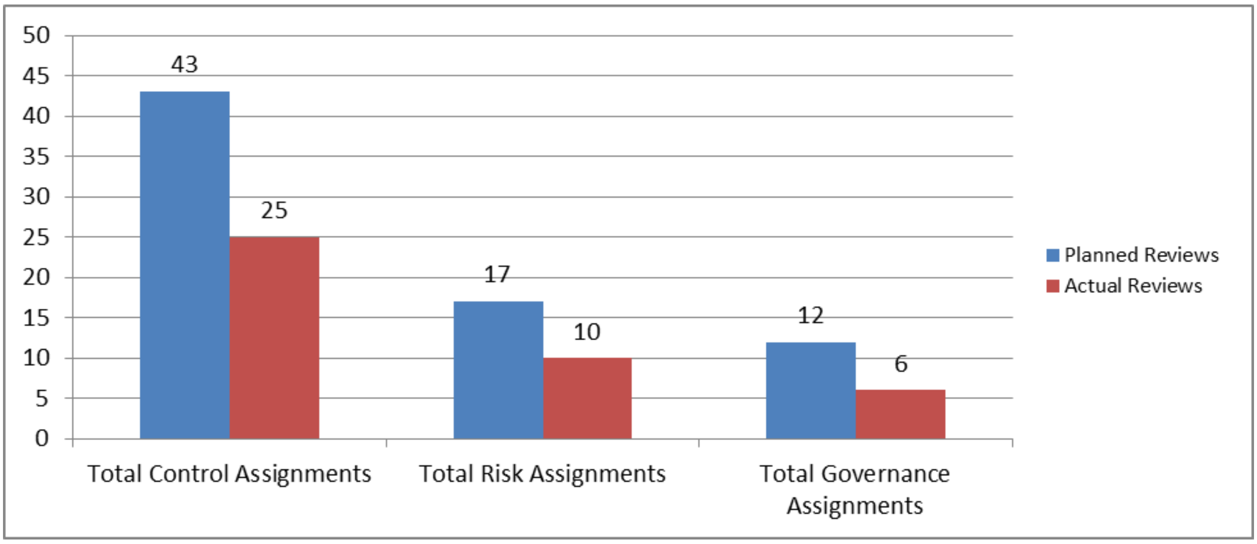
3.1.4 There was a further reduction in the staff resources for the internal audit plan in January as a member of the team was temporarily transferred to the Insurance team to provide cover for staff absence to ensure that the claims management activity operated effectively in order to ensure that the Council was able to could defend claims wherever possible and minimise the costs of any successful claims received.

3.1.5 The days achieved against the original and revised Audit & Assurance Plan are considered sufficient to provide an opinion on the effectiveness of risk management, control, and governance processes within the constraints that are being placed upon the Council and Audit & Assurance.

3.2 Key Achievements 2017/18

3.2.1 Despite the 127 days (18.5%) reduction in available assignment audit days Internal Audit was able to deliver sufficient audit assignments to provide its opinion. The following exhibit shows Internal Audit was able to deliver 41 assignments, which is 43% less than those originally planned (72), but in line with the revised plan (47). It should also be noted that 13 planned reviews were in progress at 31 March 2018.

Exhibit 7: Internal Audit Plan Against Actual 2017/18 (Assignments Delivered)



3.2.2 We consider that the volume of audit assignments completed in relation to risk management, control and governance is sufficient to allow us to provide an overall opinion on each of those Council processes.

3.2.3 The Audit & Assurance Plan is prioritised according to the level of risk associated with each audit assignment. A Priority 1 (highest level) assignment is "a strategic risk or fundamental review required to provide a statutory opinion for the Annual Governance Statement". The 2017/18 Audit & Assurance Plan included nine Priority 1 audit assignments, all of which (100%) have been delivered in 2017/18 or were in progress at the year end. The findings to date, of the priority 1 reviews completed or in progress at the year end, have not identified any significant areas of concern which would impact on the annual overall opinion provided.

3.3 Key Performance Information

3.3.1 The Finance & IT Department's Business Plan and Audit & Assurance Plan included a number of measures to assess the performance of Internal Audit in terms of its achievement and quality. The actual performance against these targets for 2017/18 (together with the 2016/17 performance) is shown in the following table.

Exhibit 8: Internal Audit Performance 2017/18

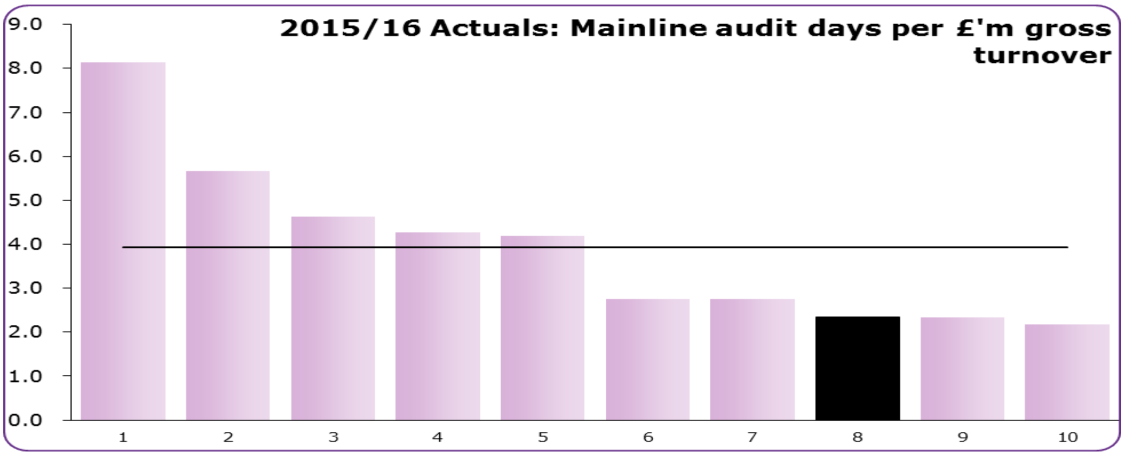
Performance Measure	Target	Actual 2017/18	Actual 2016/17
Delivery of Priority 1 Audits	100%	100%	83%
Planned Audits Completed Within Budget.	90%	**71%**	61%
Final Reports Issued Within Deadline	90%	95%	95%
Follow Ups Undertaken Within Deadline	90%	**82%**	64%
Recommendations Implemented	90%	**89%**	84%
Client Satisfaction	75%	100%	100%
Compliance with PSIAS	95%	99%	99%

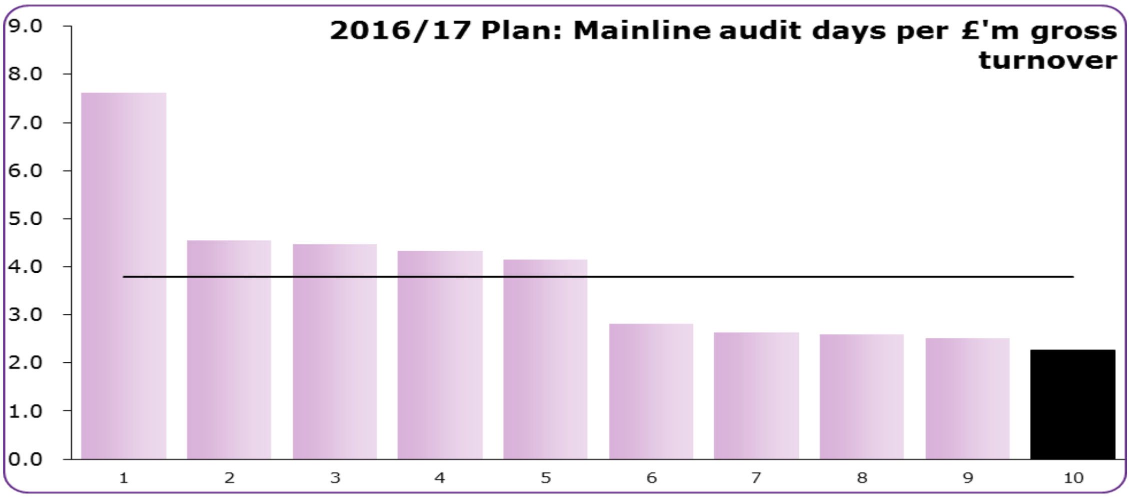
3.3.2 The actual performance against these targets was reported to each Audit Committee meeting during 2017/18. Explanations were also provided where our performance did not meet the expected target.

3.4 Benchmarking

3.4.1 Internal Audit participated in the CIPFA Audit Benchmarking Club for 2016/17. This allowed us to undertake headline comparisons with other participants in the Club and a more detailed analysis of our activity against that of a small number of near comparators.

3.4.2 The results of the exercise were presented to the Audit & Governance Committee as part of the 2016/17 Annual Report. The Council's internal audit service (shown on the bar charts as the "black bar") was compared with 9 other near-comparators (based upon Council gross revenue turnover (GRT), service structure and internal audit delivery arrangements). The key benchmark of "mainline audit days per £million of gross turnover" identified the following for 2015/16 (2.4 days compared to an average of 3.9 days) and 2016/17 (2.3 days compared to an average of 3.8 days):





It should be noted that the figures for 2016/17 were prepared on the basis of the planned audit days deliverable per the Audit & Assurance Plan approved on 12 April 2016.

3.5 Quality Assurance

3.5.1 The Quality Assurance & Improvement Programme (QAIP) was presented to the September 2016 Committee meeting. The QAIP covers all aspects of internal audit activity and enables conformance with the PSIAS to be evaluated. A key objective of the QAIP is to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. This is achieved through both internal and external assessments. A summary of the QAIP is attached at Appendix 2.

3.5.2 During 2017/18 the Head of Audit & Assurance has had some operational involvement in the ongoing monitoring process as a result of the staffing restructure. This has involved reviewing the work of the Principal Audit & Assurance Officers and quality assuring the final reports of all staff. This allows the Head of Audit & Assurance to maintain a level of independently and objectively review the process to identify opportunities for improvement.

3.6 Statement of Conformance with the Public Sector Internal Audit Standards (PSIAS)

3.6.1 From 1 April 2013 Audit & Assurance has been required to comply with the requirements of the PSIAS. Our assessment is that we comply fully or partially with 330 of the 334 elements (99%) of the Standards. The areas of non-conformance are as follows:

Exhibit 10: PSIAS Non-Conformance 2015/16

Conformance with the Standard	No
1300 Quality Assurance and Improvement Programme	
If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in (accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	1#
2450 Overall Opinion	
Does the annual report incorporate the following:	
h) The results of the QAIP?	1*
i) Progress against any improvement plans resulting from the QAIP?	1*

The Accounts & Audit Regulations 2015 states that organisations are no longer required to undertake an annual review of effectiveness of internal audit as there is an overriding requirement to undertake an external assessment.

* Section 3.5 and Appendix 2 of this report demonstrates the implementation of these actions.

3.6.2 This analysis shows that the Council's Internal Audit function is generally in conformance with the PSIAS. Furthermore, the results of the PSIAS Peer Review assessment, carried out by independent Head of Audit colleagues from the North Wets Chief Auditors Group, (reported to the April 2016 Committee meeting) confirmed that the Council's internal audit team conforms to the PSIAS across all areas of focus:

Exhibit 11: PSIAS Summary Peer Review Assessment 2015/16

Area of Focus	Judgement
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Overall Judgement	**Conforms**

3.7 Improvement Plans for 2018/19

3.7.1 No significant areas for improvement have been identified for 2018/19 from the results of the quality assurance process in place within Audit & Assurance. Following the completion of the service review of the Audit & Assurance team and the implementation of the revised structure the Team has focussed on ensuring that it continues to deliver an effective and improving service. Audit management will continue to work with senior management to ensure that systems in operation to promote effective control, risk management and governance are adequate in the current evolving transformational climate. The team will also continue to maintain and improve its corporate visibility to take every opportunity to market itself to the organisation, particularly at lower levels of management and operational areas of management, emphasising the added value that it offers.

SECTION 4 – ANNUAL GOVERNANCE STATEMENT

4.1 Criteria for Identifying Issues Relevant to the Annual Governance Statement

4.1.1 The CIPFA (Chartered Institute of Public Finance & Accountancy) and APB (Auditing Practices Board) guidance suggests the following criteria should be applied when judging what may constitute a significant control issue for the purposes of disclosure in the Annual Governance Statement:

- the issue has seriously prejudiced or prevented achievement of a principal objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant a diversion of resources from another aspect of the business;
- the matter has led to a material impact on the accounts;
- the issue or its impact has attracted significant public interest or has seriously damaged the reputation of the organisation, or;
- the issue has resulted in formal action being taken by the Chief Financial Officer or Monitoring Officer.

4.2 Issues Relevant to the Preparation of the Council's Annual Governance Statement

In our opinion none of the qualifications that inform our annual internal audit opinion constitute a material weakness in the Council's overall governance framework that requires disclosure in the Annual Governance Statement.

Appendix 1

Audit & Assurance Plan & Actual 2017/18

Audit Assignment	CLASSIFICATION	Priority	17/18 Days	Actual Days	Assurance Opinion	
					Control	Compliance
Personalised Budgets/Direct Payments	Control	2	10	11	Adequate	Limited
Commissioning/Contract Management	Control	2	10	0.5		
Provision of equipment to services users	Control	2	10	11.5	Limited	Adequate
Adoptions/Fostering recruitment and payments	Control	2	10	16.5	Limited	Limited
Section 17 Payments	Control	2	10	0.5		
Audits of Schools Finance Systems - Planning	Control	2	3	1.4		
Our Lady and St Johns RC High	Control	2	8	8.4	Limited	Adequate
St Pauls CE Primary - WIP 2017/18	Control	2	5	7.7		
St Thomas CE Primary	Control	2	5	11	Limited	Adequate
St Peters CE Primary	Control	2	5	8.1	Limited	Limited
St Peters RC Primary	Control	2	5	7	Limited	Adequate
Turton Belmont	Control	2	5	10.4	Adequate	Adequate
Holy Trinity Follow Up	Control	3	2	0		
Sacred Heart Follow Up	Control	3	1	0		
St Annes Follow up	Control	3	1	0		
Selective Licensing	Control	A*	10	10	Substantial	Substantial
Volunteers/Demand Management	Control	A*	16	1		
LTP Grant Requirement - Certification	Control	1	5	5.3	N/A	N/A
Blakey Moor Heritage Lottery	Control	2	10	12.6	Adequate	Adequate
KGH Events Management - WIP 2017/18	Control	2	10	11.1		
Payroll - Core System - WIP 2017/18	Control	1	25	6.3		
Police and Crime Commissioner Grant	Control	1	5	5.7	Limited	Limited
Off payroll engagement (IR35) - WIP 2017/18	Control	2	10	9.9		
Overtime/Additional hours payments - WIP 2017/18	Control	2	10	1.3		
Severance Payments - WIP 2017/18	Control	2	10	10.7		
Corporate Procurement - Public Contracts Regulations 2015 (CADS) - WIP 2017/18	Control	2	10	7.4		
Members Allowances and Induction	Control	A*	10	13	Adequate	Limited
Childrens Services Imprest Account - Addition to plan	Control	2	5	14.1	Adequate	Limited
Bus Subsidy Grant	Control	1	5	3.4	N/A	N/A
Disaster Recovery	Control	2	10	11.1	Substantial	Adequate
Main Accounting System - WIP 2017/18	Control	1	10	8.9		
Housing Benefits	Control	1	20	20.5	Adequate	Adequate
Creditors /E-Procurement/P/cards	Control	1	15	17.8	Adequate	Adequate
Council Tax	Control	1	15	14.7	Substantial	Substantial
NNDR	Control	1	15	13.4	Substantial	Adequate
Income Collection and Management System - WIP 2017/18	Control	2	10	3.5		
Sundry Debtors	Control	2	10	1.7		
Capital Programme/Budget Monitoring and Reporting - WIP 2017/18	Control	2	10	6.1		
Private Care Homes Contract Payments - WIP 2016/17	Control	2	5	4.3	Limited	Limited
Debtors - WIP 2016/17	Control	3	5	9.7	Adequate	Adequate
Payroll - Core System - WIP 2016/17	Control	1	12	14.1	Adequate	Adequate
St Annes RC - WIP 2016/17	Control	1	0	0.1	Limited	Limited
Efficiency Partner - WIP 2016/17	Control	2	0	0.1	Adequate	Adequate
Total Control Assignments			**368**	**331.8**	**25 (43)**	

Audit Assignment	CLASSIFICATION	Priority	17/18 Days	Actual Days	Assurance Opinion	
					Control	Compliance
Client case management system - Mosaic	Risk	1	10	10.8	Adequate	Adequate
SEND Inspection Regime	Risk	2	10	12	Limited	Adequate
CCTV Pennine Lancs Provision	Risk	2	10	10.1	Adequate	Substantial
Growth & Development Governance/Partnership Arrangements	Risk	2	10	0.3		
Highways - WIP 2017/18	Risk	2	15	1.2		
Growth Strategy	Risk	2	10	0.3		
Public Protection Inspections - WIP 2017/18	Risk	2	10	12		
Transport Procurement/Fleet Management	Risk	2	10	0		
ResourceLink System Security/Access	Risk	2	5	5.7	Adequate	Adequate
Budgetary Setting and Control - WIP 2017/18	Risk	1	10	5.9		
Information Governance/Data Protection	Risk	2	5	4.3		
Prosecution Process - WIP 2016/17	Risk	2	10	10.4	Adequate	Adequate
Budgetary Control - WIP 2016/17	Risk	1	2	4.4	Substantial	Substantial
Cyber Risk Review - WIP 2016/17	Risk	2	5	11.6	Adequate	Adequate
HR and Payroll VFM - WIP 2016/17	Risk	2	4	5.7	N/A	Adequate
CCTV Pennine Lancs Provision - WIP 2016/17	Risk	2	1	0.3	Adequate	Adequate
Client Case Management System - WIP 2016/17	Risk	2	10	10.7	Adequate	Adequate
Total Risk Assignments			**137**	**105.7**	**10 (17)**	

Audit Assignment	CLASSIFICATION	Priority	17/18 Days	Actual Days	Assurance Opinion	
					Control	Compliance
Social Determinants of Health Fund - WIP 2017/18	Governance	2	10	7.2		
Energy Grant	Governance	1	10	10.2	Adequate	Adequate
Schools & Museums Programme - External Funding Governance	Governance	A*	10	9.8	Adequate	Adequate
Capita Partnership - Contract Management & Governance - WIP 2017/18	Governance	1	10	7.1		
Partnership Arrangements - WIP 2017/18	Governance	2	10	7.9		
Review of Financial Regulations	Governance	2	5	0.4		
Growth Deal Round 2 - East Darwen Distributor	Governance	2	10	0.3		
Project Management - WIP 2017/18	Governance	2	15	12		
Housing Growth Plan/Growth Strategy - WIP 2016/17	Governance	2	5	8.5	Limited	Adequate
Police and Crime Panel Grant 2016/17 - WIP 2016/17	Governance	2	1	2.3	Substantial	Limited
Strategic Funding and Bidding - WIP 2016/17	Governance	3	4	3.7	Adequate	None
Heritage England Grant - WIP 2016/17	Governance	2	2	2	N/A	N/A
Total Governance Assignments			**92**	**71.4**	**6 (12)**	
Audit Assignment	**CLASSIFICATION**	**Priority**	**17/18 Days**	**Actual Days**	**Assurance Opinion**	
					Control	**Compliance**
Other Audit Work						
A & A Client liaison/Queries	Other	2	20	14.4		
A & A Client Liaison/DMT Attendance	Other	2	10	3.9		
A & A Client Liaison/Project Groups	Other	2	15	6.6		
Audit Committee	Governance	1	15	12.7		
Audit Committee Annual Report/Evaluation	Governance	1	5	2.6		
Audit Committee CIPFA Guidance	Governance	2	5	0.4		
Auditor Panels	Governance	2	5	1.9		
Follow up work	Governance	1	10	5.9		
Liaison with external audit	Other	1	5	2.5		
Total Other			**90**	**50.90**		
Grand Total			**687.00**	**559.80**		

Appendix 2

Summary Quality Assurance & Improvement Programme Activities

Activity	Frequency	Responsibility	Reporting
Internal Assessments – Ongoing Monitoring			
Review of internal audit charter, audit policies and procedures	Annual	Head of Audit & Assurance	Annual Plan to Audit & Governance Committee
Agree performance metrics for internal audit	Annual	Head of Audit & Assurance/Director of Finance & IT	Annual Plan to Audit & Governance Committee
Allocation of audit assignments to appropriate internal auditors	Each Assignment	Head of Audit & Assurance/Principal Audit & Assurance Officers	Annual Report to Audit & Governance Committee
Review of audit assignments	Each Assignment	Head of Audit & Assurance /Principal Audit & Assurance Officers	Annual Report to Audit & Governance Committee
Moderation and approval of internal audit reports	Each assignment	Head of Audit & Assurance/ Principal Audit & Assurance Officers	Annual Report to Audit & Governance Committee
Customer survey/questionnaire	Each Assignment	Head of Audit & Assurance/Principal Audit & Assurance Officers	Quarterly Progress Report to Audit & Governance Committee
Analyse performance metrics of internal audit activity	Quarterly	Head of Audit & Assurance	Quarterly Progress Report to Audit & Governance Committee
Discuss performance of internal audit activity	Monthly	Head of Audit & Assurance	Team Meeting Minutes
Discuss performance with individual internal auditors	Monthly	Head of Audit & Assurance/Principal Audit & Assurance Officers	Finance & IT DMT
Internal Assessments – Periodic Self-Assessments			
Self-Assessment against PSIAS	Annual	Head of Audit & Assurance	Annual Report to Audit & Governance Committee
Review of QAIP	Annual	Head of Audit & Assurance	Annual Report to Audit & Governance Committee
Progress against the audit & assurance plan/completion of priority 1 audits	Annual	Head of Audit & Assurance	Review of Audit Plan to Audit & Governance Committee
Appraisal of Head of Audit & Assurance	Annual	Director of Finance & IT/Chief Executive/Chair of Audit & Governance Committee	Finance & IT DMT
Appraisal of auditors including objective/target setting against agreed skills & competencies.	Annual	Head of Audit & Assurance/Principal Audit & Assurance Officers	Finance & IT DMT
Client Satisfaction Survey	Annual	Head of Audit & Assurance	Annual Report to Audit & Governance Committee
Benchmarking review of internal audit services	Every 3 Years	Head of Audit & Assurance	Annual Report to Audit & Governance Committee
External Assessments			
Assessment against PSIASs	Every 5 Years	Head of Audit & Assurance	PSIA Report to Audit & Governance Committee

Blackburn with Darwen Borough Council

Annual Governance Statement for the year ended 31 March 2018 and up to the date of the July 2018 Audit & Governance Committee

ANNUAL GOVERNANCE STATEMENT

Foreword by the Deputy Chief Executive – 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 key developments and on-going arrangements in governance in 2017/18 included:

- Complete review and refresh of the Council's Constitution following the Boundary Commission's recommendations for the Blackburn with Darwen Unitary Authority, including:
  - Revised political arrangements;
  - Revised Overview and Scrutiny arrangements; and
  - Rewrite and update of the Code of Corporate Governance.
- 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, including work to ensure compliance with the requirements of the General Data Protection Regulations.
- 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.
- Ongoing use of the 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.
- Annual Audit & Governance Committee self-assessment arrangements to evaluate its effectiveness.
- The on-going formalised, structured member training programme.
- The Audit & Governance Committee 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 2018 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 the people of Blackburn with Darwen including the challenges and opportunities it faced as an organisation and borough at that time, as well as responding to issues that residents identified, focusing on what is needed to achieve the identified 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 prior to being taken to, six monthly challenge meetings, at quarter 2 (half year reporting) and quarter 4 (year-end reporting) with directors from Resources, People and Place, the Deputy Chief Executive and a strategy & funding team officer.

   The challenge meetings provide a robust integrated performance challenge framework that focuses on identifying key issues and cross-cutting problems from the Corporate Plan performance metrics, Management Accountabilities Framework (MAF) dashboard reports and HR issues, such as sickness and Health & Safety, are also challenged for all portfolios. Highlighted issues are discussed fully and remedial actions agreed.

   Priority issues are highlighted for progression to executive team prior to being included in the Executive Board performance reports which are challenged at Policy Development Sessions (PDS) by the leader and executive members prior to final overall performance reporting and challenge at Executive Board or Policy Council.

   The Medium Term Financial Strategy (MTFS) is reviewed at Finance Council, and builds upon the priorities agreed at Policy Council and identified within the Corporate Plan.

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 achieves 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 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 strategy & funding 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 strategy & funding 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 May 2017 to reflect the resolutions/decisions made at Full Council since December 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 to reflect the new composition of the Council following the Boundary Review.

The Council has adopted the Executive and Leader model. The Council's Constitution sets out the relative roles and responsibilities of Executive and, Officers and Committees of the Council. 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 decisions 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 but it also involves other significant partnership projects. The strategy & funding team produce an Annual Significant Partnerships Governance checklist which is reviewed and audited by internal audit prior to the final report being taken to Audit & Governance Committee. Governance arrangements are also 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.

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 and staff. 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 is 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 2017 following a review of the Constitution. The Monitoring Officer also holds and maintains a record 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 changes in national reporting arrangements and implementation of new local arrangements (such as electronic file management).

The Policy was endorsed by Audit & Governance 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 existing data quality arrangements.

Over the course of the year the Council has continued to carry out and record equality analysis and impact assessments as a key stage in the decision making process.

The Council revised its Equality Impact Assessment (EIA) Toolkit and reviewed its decision-making processes in 2016 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 and in line with legislative requirements.

Senior Management Teams (SMT's) and Elected Members within their respective service areas are 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 for the higher priority areas identified in the annual Audit and Assurance Plan, which is approved by the Audit & Governance Committee at its meeting in April each year. 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. 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 introduced a new Financial Management System from 1st April 2017, this has produced working efficiencies, cost savings and facilitated 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. The corporate exercise in 2017 was Business Continuity testing ICT failure and the corporate exercise in 2018 tested the emergency response to a prolonged emergency testing business and personal resilience. All departmental plans are also tested during the exercises, with any actions required identified and reported to Management Board. The Civil Contingencies Service is currently working through a two year quality assurance audit programme, to review all business continuity plans to identify gaps in knowledge, training and update plans. This programme will end in 2019. The Civil Contingencies Service also successfully presented to Scrutiny Committee in September 2017.

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 reviewed in October 2017 and the system of safety procedural documents outline the arrangements in place to meet the Council’s statutory duties.

Face to face training courses for employees are available on an ad hoc basis and these are agreed with departmental managers, and are available on request. E-learning safety packages are freely available to all Council employees via the ‘Me Learning’ portal.

A rolling health and safety audit programme is in place for the Council. Service Level Agreements are offered to schools across the Borough for a health and safety service. Quarterly compliance checks are emailed to Directors to help support a culture of safety in their area of work.

The organisation has improved the reporting of accidents, incidents and near misses with an intranet based reporting system. This has improved reporting levels as well as tracking that steps are taken by managers to reduce risks and learn from incidents. Statistics are reported at the Health and Safety Consultative Committee.

The trend in RIDDOR reportable accidents is at a low level with 8 reported in 2017/18. None of the RIDDORS have highlighted any major cause for concern, investigations and subsequent actions have been implemented where required.

There was a significant increase in near misses reported and investigated in the second half of the year following targeted work from the health, safety and wellbeing team in the HR Service.

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 the fraud and corruption risks identified 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 2018/19 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.

During the year, the Council also commenced implementing its digital vision for the Borough. The work on this area is monitored by the Digital Programme Board. This vision sets out our approach to addressing the challenges of delivering technology across the organisation and ensuring that the maximum benefit is derived for the Council, its workforce, customers and partners.

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 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 & Governance 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 Governance.

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.

The Audit & Governance Committee has continued to monitor its own effectiveness against the criteria outlined in the CIPFA Audit Committees Practical Guidance for Local Authorities and Police (2013 Edition). The overall results reported to the Committee in January 2018 showed that there is a strong belief by its members that the Committee is operating effectively.

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.

The General Data Protection Regulations (GDPR) Mandatory Information Asset Register is complete in order to reflect the new requirements in the GDPR to have detailed records of all information assets including how we share those assets and who we share them with. The Records of Processing Activity (ROPA) is operational in that all the data we have captured so far is uploaded.

The datashare website has been operational for just over 3 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 2018/2019. Discussions have taken place 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. The Corporate and departmental risk registers have been updated to include known GDPR risks. As the project progresses and the Gap analysis is updated, IG will update the risk register to reflect any amendments.

The IG team continue to provide advice, guidance and assistance in the relevant areas of legislation, have an appropriate Information Security Examinations Board qualification 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. A training needs assessment is carried out following Council elections. Following the 2018/19 elections the number of councillors will reduce from 64 to 51. 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 these officers have the required knowledge, skills and experience to deal with the public sector reform agendas. Training and development needs will be considered in annual appraisals.

19. **Establish clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.**
As well as a constantly updated online version of The Shuttle a hard copy called the Shuttle Extra is now 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.

A key commitment of the Corporate Plan is "Your Call", where the Council is committed to working together with residents; businesses and partners, to develop a 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 the 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. As part of this agenda the Council is the accountable body for the 'One Public Estate Programme' within Lancashire.

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 2017 following an audit review. The Significant Partnerships Register is in the process of being updated and will be taken to Audit & Governance Committee upon completion. The register is updated on an annual basis 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, including the Council's Growth Programme. These arrangements are due to end in June 2018.

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.

Progress during 2017/18 on significant governance issues identified in the 2016/17 Annual Governance Statement

Title	CIPFA Criteria	2016/17 Issue	2017/18 Action taken
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.	Now in the second year of the new partnership which started on 1 July 2016 and we are ensuring completion of all the agreed contract management arrangements to enable a review of the governance processes to ensure they are fit for purpose. Arrangements in the first year generally worked well although some late submissions have been followed up to ensure full completion. The Operational Board and Strategic Partnership Board are meeting monthly plus the full Partnership Board with elected Members meets regularly and governance issues are discussed with agreed actions monitored.
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.	Through the course of 2017/18 the portfolio continued to face significant pressures in the area of commissioned placements budgets due to increased activity and cost of individual care packages. As reported, the majority of these pressures were mitigated by agreed allocation of iBCF funding, transfers from the social care demand reserve, and a transfer from contingency held for Adults Commissioning inflationary cost pressures.

			The net outturn position for the portfolio is an underspend compared to final monitoring. This is subject to final approval. The demand pressures in the commissioning placement budgets are expected to continue into 2018/2019. There are good processes in place for monitoring and managing budgets. Monthly strategic budget meetings are continuing. A dashboard is being developed as an early warning system to pull together trends, activity, budget, cost and impact. Commissioning spend is scrutinised via the Mosaic approval process and demand management strategies are being applied.
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.	Throughout 2017/18 the portfolio reported a number of demand led pressures, particularly surrounding the commissioned placements and special guardianship order budgets. These budgets were uplifted during the financial year in order to meet the rising demand and as a result the portfolio will be reporting a small total overspend. These pressures are expected to continue into 2018/2019.

Page 273

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 (GDPR).	Significant work has been undertaken during 2017/18 to ensure the Council is prepared for the introduction of GDPR in May 2018. This includes: • The GDPR Mandatory Information Asset Register is complete and the Records of Processing Activity (ROPA) is operational in that all the data we have captured so far is uploaded. • The Primary Privacy Notice (PPN) will be uploaded in May. It has been determined that the PPN is of sufficient enough quality to demonstrate that the most basic of processing for standard activities across the Council will comply with the transparency requirements under the GDPR. • Service Specific Privacy Notices (SSPN's) will be uploaded alongside the PPN. These notices will explain in further detail, the arrangements for the processing of special category and other significant data sets that warrant more assurance from our service users. • New Data Protection Training content will be rolled out by the beginning of May. • The procurement team have issued notifications to all personal data processors. Some have been issued with contract addendums to replace

			DPA1998 with GDPR and DPA 2018 and requested to flag any processing concerns to IG in the event of supplier non-compliance.
			• Mandatory Policies, procedures and guidance documents are in the process of being created/refreshed. The main areas of focus, where there will be a significant refresh or creation of new policy are in the following areas:
			  ○ Data Protection Policy (Refresh).
			  ○ Data Protection Impact Assessment Policy/Procedure (New).
			  ○ Information Security Policy (Refresh).
			  ○ Data Protection Training Policy (New).
			  ○ Data Breach Reporting Procedure (Refresh.)
			  ○ Subject Access Request Procedure (New).
			  ○ Privacy Notice (Refresh).

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 each 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 and revised as part of the new Governance Arrangements post May 2018 and their effectiveness will be monitored.

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. The 2017/18 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 are included as part of the Constitutional updates to Council.

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 auditor noted, in the Annual Audit Letter for 2016/17, that:

- They issued an unqualified opinion on the Council's 2016/17 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 2016/17.
- 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 2017.
- 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 consider.

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 2016/17 audit.

In their progress report to the Audit & Governance Committee in April 2018 the external auditors were able to state, for the year ended 31 March 2018 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 weaknesses 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/may seriously prejudice or prevent achievement of a principal objective;
2. The issue has/may result in a need to seek additional funding to allow it to be resolved;
3. The issue has/may result in significant diversion of resources from another aspect of the business;
4. The issue has/may lead to a material impact on the accounts;
5. The issue, or its impact, has/may attract significant interest or seriously damaged the reputation of the Council;
6. The issue has/may result 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 2017/18 are outlined in the following table:

Title	CIPFA Criteria	Issue / Actions being taken	Responsible officer(s)
Children's Services Financial Position	1,2,3	The Children's Services budget position continues to face demand pressures in 2018/19 due to the volumes of social work being managed, the nature of cases being received (including higher dependency needs) and increasing costs of placements associated with these. This has led to a need for an increase in social workers to manage demand. Arrangements will continue to maintain awareness and ensure effective budget and case management continues 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.
Highways Inspection Arrangements	1,3,5	Ensure an effective inspection regime is in place in respect of the Highway Network (including in relation to bridges and structures) in accordance with the frequency and standards set out in the Well-maintained Highways Code of Practice (since updated and replaced by the "Well-managed Highway Infrastructure: A code of practice").	Director of Growth & Development

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: ....

Leader **Chief Executive**

Date: ....

TO:	Audit & Governance Committee
FROM:	Director HR, Legal & Governance Director of Finance & Customer Services
DATE:	24 July 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF BRIEFING PAPER **Audit & Governance Committee Annual Report**

1. PURPOSE

The draft Audit & Governance Committee Annual Report 2017/18 is attached for consideration and approval (see Appendix A). This summarises the work that the Committee has undertaken during the year to demonstrate that it has fulfilled its agreed terms of reference.

2. RECOMMENDATIONS

The Committee is asked to:

- Consider and approve the Committee's Annual Report, including the statement on its effectiveness during 2017/18 and the draft effectiveness self-assessment evaluation; and
- Refer the report to Full Council for endorsement.

3. BACKGROUND

The CIPFA 'Audit Committees: Practical Guidance for Local Authorities and Police' 2013 edition incorporates CIPFA's Position Statement on the role and function of view of an audit committee in local authorities. This notes that although no single model of committee is prescribed, all should report regularly on their work and at least annually report an assessment of their performance.

4. RATIONALE

The Audit & Governance Committee is a key component of the maintenance of an adequate and effective governance framework. Through its 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.

5. KEY ISSUES

Having an effective Committee brings many benefits to the Council, such as:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- providing additional assurance through a process of independent and objective scrutiny;
- raising awareness of the need for internal control and the implementation of audit recommendations; and,
- reinforcing the importance and independence of internal audit.

The Committee's activities during 2017/18 were designed to make a positive contribution to the continual improvement of control and governance arrangements across the Council, as well as performing the roles set out for the Committee in the Council's Constitution.

The Committee has had the opportunity to examine and challenge the arrangements for effective governance. The Annual Report indicates the breadth of the Committee's work in ensuring that every aspect of the Council's work should be compliant with standards and transparent to its stakeholders. The reports received by the Committee during 2017/18 indicate that there has been thorough coverage of the Committee's Terms of Reference. In this way, the Annual Report demonstrates the value of the Committee to the Council and public, ensuring that governance is on a sound footing.

Good practice guidance exists for the effective operation of audit committees across the public sector, including the most recent publication by CIPFA noted above. That guidance includes a Good Practice Self-Assessment which was considered by the Committee at its meeting on 9 January 2018. Appendix 2 of the attached report sets out the results of the self-assessment. The guidance also included a self-assessment tool for audit committees to use to evaluate their effectiveness. The results of this assessment are set out in Appendix 3 to the attached report for consideration.

6. POLICY IMPLICATIONS

There are no direct policy implications arising from this report.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. LEGAL IMPLICATIONS

There are no direct legal implications from this report.

9. RESOURCE IMPLICATIONS

The resource implications are within the report.

10. EQUALITY AND HEALTH IMPLICATIONS

The decisions to be taken do not change policy and do not require any further consideration in respect of equality or health issues.

11. CONSULTATIONS

Chair of the Audit & Governance Committee, Deputy Chief Executive, Director of HR, Legal & Governance, Director of Finance & Customer Services.

Contact Officer:	Colin Ferguson, Head of Audit & Assurance - Ext 5326
Date:	11 July 2018
Background Papers:	CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition). Audit Committee – Making it Most Effective (CIPFA Practical Guidance on Audit Committees – Action Plan), approved by Committee on 13 January 2015 and reviewed 9 January 2018.

Appendix A

Blackburn with Darwen Borough Council

Draft
Audit & Governance Committee Annual Report 2017/18

1. Background to the Governance Framework

1.1. What drives governance policy?

1.1.1. 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, efficiently and effectively. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of control which facilitates the effective exercise of the Council's functions and which includes adequate arrangements for the management of risk.

1.1.2. Effective corporate governance is a fundamental feature of any successful public sector organisation. Corporate governance initially became a major issue after several high profile failures in the private sector. As a result there were several reviews (for example the Cadbury and Hempel Committees) directed at improving governance in the private sector.

1.1.3. The trend for strengthening governance arrangements spread to the public sector and resulted in the joint Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) document Delivering Good Governance in Local Government – a Framework. The Framework, revised in 2016, was originally structured around the six core principles found in the Good Governance Standard for Public Services drawn up by an independent commission established by CIPFA, the Office for Public Management (OPM), and the Joseph Rowntree Foundation.

1.1.4. In 2016 CIPFA/SOLACE published a revised Framework to ensure that local government continues to develop and shape its own approach to governance, taking account of the environment in which it now operates. The new Framework applied to annual governance statements prepared for the financial year 2016/17 onwards. It is based on the International Framework: Good Governance in the Public Sector published by CIFA and the International Federation of Accountants in 2014 and contains seven key principles.

1.1.5. The International framework defines governance as follows:

"Governance comprises the arrangements put in place to ensure the intended outcomes for stakeholders are defined and achieved."

1.1.6. It also states that:

"To deliver good governance in the public sector both governing bodies and individuals working for public sector entities must try to achieve their entities objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and stakeholders."

1.1.7. Blackburn with Darwen Borough Council operates through a governance framework that brings together an underlying set of legislative requirements, governance principles and corporate policies and management processes.

1.1.8. The Council recognises the seven core principles of good governance as:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
B. Ensuring openness and comprehensive stakeholder engagement;
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;

D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;

F. Managing risks and performance through robust internal control and strong public financial management; and

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

1.1.9. The Council's local Code of Corporate Governance was revised during 2016 to ensure that it complies with the latest requirements. The updated Code was approved by full Council in December 2016.

2. Blackburn with Darwen Borough Council Audit & Governance Committee

2.1. Why do we need an Audit Committee?

2.1.1. Whilst there is no statutory requirement to have an Audit Committee they are widely recognised as a core component of an effective governance framework and therefore reflect good practise. Regardless of a specific legislative or regulatory framework, Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those affairs. To be truly effective, the Chief Financial Officer requires an effective Audit Committee to provide support and challenge, as well as an adequate and effective Internal Audit. Both these elements are now enshrined in the 'Public Sector Internal Audit Standards' and the supporting 'Local Government Application Note' published by CIPFA. The Audit & Governance Committee has a key role in overseeing and assessing the internal control, risk management and corporate governance arrangements in place and advising the Council on the adequacy and effectiveness of these arrangements. This role is formalised in the Committee's terms of reference.

2.1.2. The Council's Audit & Governance Committee is properly constituted and is given sufficient authority and resources by the Council. The Committee has the right to obtain all the information it considers necessary and to consult directly with senior managers. In line with best practice from both the public and private sectors, the Audit & Governance Committee can report its observations and concerns directly to the Executive Board.

2.1.3. Good corporate governance requires independent and effective assurance about the adequacy of financial management and of management arrangements for achieving the organisation's objectives. These responsibilities require an independent and challenging approach. Through these mechanisms, Committee Members are able to use their skills and experiences to influence the Council's governance, internal control processes and risk management arrangements.

2.1.4. An effective Committee can bring many benefits to the Council including:

- increasing public confidence in the objectivity and fairness of financial and other reporting;

- providing additional assurance through a process of independent and objective scrutiny;
- raising awareness of the need for internal control and the implementation of audit recommendations; and,
- Reinforcing the importance and independence of internal audit.

2.2. What does it do?

2.2.1. Audit Committees are a key component of corporate governance. They increase public confidence in the objectivity and fairness of financial and other reporting. They also provide a high-level focus on assurance and the organisation's arrangements for governance, managing risk, maintaining an effective control environment.

2.2.2. Good practice is contained within CIPFA's document 'Audit Committees – Practical Guidance for Local Authorities and the Police' (2013 Edition). The latest edition of the document updates the core functions of an Audit Committee in relation to governance, risk management, internal control and audit. The introduction of the Public Sector Internal Audit Standards, along with annual governance statements and associated guidance has also been considered in relation to their impact on an Audit Committee.

2.2.3. During the year the Audit & Governance Committee consisted of six cross party elected Members. The Committee's purpose, as proscribed in its terms of reference, are to:

- provide independent assurance of the adequacy of the risk management framework, overall governance and the associated control environment and the extent to which these meet the objectives of the Local Code of Corporate Governance;
- provide independent review of the Council's governance, risk management and control frameworks;
- oversee the financial reporting and annual governance processes; and
- oversee internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

2.2.4. The Audit & Governance Committee provides assurance, on behalf of the Council, about the extent to which the objectives of the Local Code of Corporate Governance, as set out in its Constitution, are being met. This purpose is reflected in the Committee's Terms of Reference which are included at Appendix 1 of this report. These were updated during 2015/16 to bring them in line with the core functions set out in the latest guidance for Audit Committees issued by CIPFA. The revised terms of reference were approved by full Council in July 2016 and reaffirmed in May 2017.

2.2.5. The CIPFA guidance also includes a greater focus on the factors which support improvement. These include the knowledge and skills that Audit Committee members require and a focus on where the Audit Committee adds value. The Publication provides practical support to the Committee in evaluating the existing Committee arrangements and any planned improvements.

2.2.6. The guidance includes a self-assessment checklist of good practice to assist both Members and Officers who are involved in the operation of the Committee. This was completed by Audit & Assurance on behalf of the Committee and presented for consideration at its meeting on 13 January 2015. The Committee noted the key requirements of the CIPFA guidance and approved the action plan for making the Audit & Governance Committee more effective. The Committee received an update on the good practice self-assessment in January 2018, along with the results of a self -assessment of the Committee's effectiveness. This was completed by Audit & Assurance on behalf of the Committee, in consultation with the Chair of the Committee, and reported to the Committee in January. The results are included at Appendix 2 and 3 of this report for consideration.

2.2.7. The Audit & Governance Committee met four times during the 2017/18 Municipal Year. Timings of the meetings throughout the year are designed to coincide with the governance timetable, with meetings in June to receive annual opinion and assurance reports, approve the Council's Annual Governance Statement and to receive the draft Statement of Accounts, and in September to receive the draft Treasury Management Annual Report and Mid-Year Strategy Review, approve the accounts and receive the external auditor's annual report. Attendance details are set out in Appendix 4. The Committee's outline work programme (see Appendices 1 and 4), and associated reports it receives, is designed to enable its Members to make a positive contribution to the continual improvement of control and governance processes and arrangements across the Council, as well as performing the roles as identified by the Constitution.

2.2.8. As well as the assurance provided to the Committee from the key reports received from the Council's External Auditor, the Committee also places reliance on the work carried out by Audit & Assurance in delivering the annual internal audit plan. Assurance is gained throughout the year from considering the quarterly progress reports received. These provide the Committee with an overview of the activity carried out by internal audit during the period, including counter fraud activity, and an overview of all audit reports finalised. Emphasis has been on limited or no assurance reports and senior officers have been invited to update the members on progress of implementing recommendations from these reports to provide further assurance to the Committee regarding the implementation of agreed actions.

2.2.9. The Committee also receives a full year overview of internal audit work when the Internal Audit Annual Opinion Report is presented, alongside the Annual Counter Fraud Report. The former report provides the Head of Audit opinion on the Council's overall position in relation to the adequacy and effectiveness of risk, governance and internal control systems, based on the work completed by the internal audit team, as required by the Public Sector Internal Audit Standards.

2.2.10. The details of the Committee's work programme for 2017/18 and reports received, as set out in Appendix 4 of this report, demonstrate how the Committee has fulfilled its terms of reference during the year and its commitment to monitoring and helping improve the Council's risk, control and governance environments' in the year ahead.

2.2.11. In addition to these meetings members of the Committee have also been directed to counter fraud eLearning training modules which are available on the intranet and provided with a Councillors' workbook on bribery and fraud prevention by Audit & Assurance during the year.

2.3. How do officers support the Committee?

2.3.1. The Audit & Governance Committee is supported by:

- The Chief Executive, as Head of the Paid Service, with overall responsibility for the Council's management and executive arrangements;
- The Director of HR, Legal & Governance, as the Monitoring Officer, who is required by law to ensure that the Council acts within its legal powers at all times; and,
- The Director of Finance and Customer Services, as Section 151 Officer, who is responsible under the law for ensuring the proper administration of the Council's financial affairs.

2.3.2. The Director of HR, Legal & Governance leads on constitutional, legal, and human resource issues. The Director of Finance and Customer Services takes the lead on financial, audit, risk management and internal control matters. The Head of Audit & Assurance also has a key role to play in supporting the Committee because of the importance of the Internal Audit Service to governance. These Officers are responsible for making the Committee aware of any relevant changes in regulations, guidance, and codes of practice.

2.3.3. The Committee is also supported by External Audit colleagues, who attend each meeting to update members on the progress and results of their work, as well as providing regular sector updates. These highlight key messages from national reports and studies and include questions for consideration by the Committee. Additionally, the Committee has invited officers to attend meetings to respond to concerns raised by Members or identified through various Committee reports, such as those from internal and external audit.

2.3.4. During the year the Committee has instituted a cycle of corporate risk reviews. Corporate risk owners or key contacts have provided briefings to the Committee on a selection of risk register entries. This has included details regarding the background to the risk identified, the risk assessment process and control arrangements in place to manage or mitigate the relevant risk should it occur. This review and challenge process has improved the Committee's oversight and understanding of the likelihood and potential impact of the corporate risks identified by the Council and on the achievement of related corporate priorities.

2.4. Effectiveness of the Audit & Governance Committee

2.4.1. The purpose of the Committee, as defined in its terms of reference, is set out in 2.2.3 above. Its terms of reference set out a range of activities that would provide appropriate assurance to the Council in terms of how it manages risk, and ensures adequate and effective control and governance arrangements exist and operate effectively to secure the efficiency and effective use of its resources.

2.4.2. Training opportunities have been made available during the year to members who wish to update their skills and knowledge to ensure that they are able to fulfil their role as members of the Committee.

2.4.3. The Committee has been active during the year in carrying out its duties in monitoring internal and external reports and challenging appropriate officers to ensure that it is satisfied with the effectiveness of controls and the governance and risk management arrangements in place, in accordance with its role and functions set out in its terms of reference in Appendix 1.

2.4.4. Based on the evidence presented to the Audit & Governance Committee during the 2017/18 it is the Committee's considered view that the Council has, for the most part, sound financial controls, risk management and governance arrangements in place.

2.4.5. The Committee has continued to invite those senior officers and managers to account for services or functions where significant financial, internal control or governance weaknesses have been identified. The members continue to challenge any impairment in stewardship and control of public funds and assets, seeking assurance that prompt and proportionate management actions have been taken. This provides the Council with assurance that effective internal control arrangements were in place during the year and that appropriate action has been taken to address any concerns raised as a result of any of the inspection and assurance processes in place. This is evidenced by the details provided in Appendix 4 regarding the various reports received and considered by the Committee at its meetings during the year to support its work programme and how each of these enable the Committee to fulfil its terms of reference.

2.4.6. The External Auditor's 2017 Audit Findings Report for Blackburn with Darwen Borough Council included a section on value for money. The External Auditor is required to carry out sufficient work to be satisfied on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ended March 2017 and to provide a conclusion on this. In doing this work the main considerations the Auditor focussed on were:

- The progress made by management to develop and implement the £15m savings programme; and
- The work undertaken by management to update the Medium Term Financial Plan to take account of emerging pressure and changing assumptions.

2.4.7. Based on the work carried out the External Auditor concluded that the Council had proper arrangements, in all significant respects, to ensure it delivered value for money in its use of resources.

Appendix 1

AUDIT & GOVERNANCE COMMITTEE TERMS OF REFERENCE

Statement of Purpose:

Our Audit and Governance Committee is a key component of Blackburn with Darwen Borough Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the Audit and Governance Committee is to:

- provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment and the extent to which these meet the objectives of the Local Code of Corporate Governance;
- provide independent review of the Council's governance, risk management and control frameworks;
- oversee the financial reporting and annual governance processes; and
- oversee internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, Risk and Control:

The Audit and Governance Committee will:

1. Assess how fully the Council complies with the statutory responsibilities placed on it by the Accounts and Audit Regulations 2015 or by amendments to the Regulations or by similar formal demands;
2. Review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances;
3. Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
4. Consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements;
5. Consider the framework of assurance (including the Management Accountabilities Framework) and ensure that it adequately addresses the risks and priorities of the Council;
6. Monitor the effective development and operation of risk management in the Council, including information governance arrangements;
7. Monitor progress in addressing risk-related issues reported to the Committee;
8. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions;
9. Review the assessment of fraud risks and potential harm to the Council from fraud and corruption;
10. Ensure that the Council maintains a robust counter fraud culture via the implementation of a counter-fraud strategy backed up by effective controls and procedures, which define the respective roles of management and Internal Audit and monitor the strategy, actions and counter fraud resources; and
11. Receive, from other Committees and other inspection agencies, details of actions and decisions taken which affect, or contribute to, the Council's framework of governance, risk management and control.

Internal Audit

The Audit and Governance Committee will:

1. Approve the internal audit charter every two years;
2. Approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources;
3. Approve significant interim changes to the risk-based internal audit plan and resource requirements;
4. Make appropriate enquiries of both management and the Head of Audit & Assurance to determine if there are any inappropriate scope or resource limitations;
5. Consider reports from the Head of Audit & Assurance on internal audit's performance during the year. These will include:
   a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
   b) Regular reports on the results of the Quality Assurance and Improvement Programme.
   c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
6. Consider the Head of Audit & Assurance's annual report, including:
   a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
   b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion and the implications of any significant matters identified – these will assist the Committee in reviewing the Annual Governance Statement.
   c) An annual risk management report.
7. Consider summaries of specific internal audit reports as requested.
8. Receive reports outlining the action taken where the Head of Audit & Assurance has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
9. Contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
10. Consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations; and
11. Support the development of effective communication with the Head of Audit & Assurance.

External Audit

The Audit and Governance Committee will:

1. Consider the external auditor's annual letter, relevant reports, and the report to those charged with governance prior to publication of the annual accounts;
2. Consider specific reports as agreed with the external auditor;
3. Comment on the scope and depth of external audit work and to ensure it is effective and gives value for money;
4. Commission work from internal and external audit, or other consultants, where applicable; and
5. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

The Audit and Governance Committee will:

1. Review the draft annual statement of accounts prior to approval. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council; and
2. Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury Management

The Audit and Governance Committee will:

1. Ensure effective scrutiny of the treasury management strategy and policies;
2. Agree proposed changes to the treasury management strategy prior to approval;
3. Receive assurance on treasury management activity;
4. Consider reports on treasury management activity during the year; and
5. Consider the treasury management annual report;

Accountability Arrangements

The Audit and Governance Committee will:

1. Report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
2. Report to full council on an annual basis outlining the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Authority

The Committee is authorised by the Council to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, including those of partner organisations, and all employees are directed to co-operate with any request made by the Committee.

Frequency of Meetings

The Committee will normally meet four times each year to fulfil its requirements.

Outline Programme

In order to meet its principal responsibilities during the year the Committee will consider the following reports/activities:

PROGRAMME ACTIVITY:	TERMS OF REFERENCE NUMBER
Governance, Risk and Control	
Annual Statement (AGS)	1,2,3
AGS Progress Report	1,2
Risk Management Annual Report	3,5,6,7
Internal Audit Opinion Report	3,5
External Audit VFM Report	4
MAF Update	5
Risk Management Update	5,6,7
Corporate Health, Safety & Wellbeing Annual Report	3,5,6,7
IA Progress & Outcomes Report	8,10
Management Assurance Report	9
Reports from Other Committees or agencies	11
Internal Audit	
Annual Plan	1,2,4
IA Progress & Outcomes Report	3,4,5,7,8
Annual Opinion Report	6,9,10,11
External Audit	
Annual Audit Letter	1,5
Management Assurance Report	1
Annual Plan	2,5
Progress Report	2
Findings Report	2,5
Grant Certification Report	2
Value For Money Conclusion	3,5
Fees Letter	4,5
Arrangements for the Appointment of the External Auditor	
Financial Reporting	
Statement of Accounts	1
Management Assurance Report	1
External Audit Findings Report	2
Treasury Management	
Strategy Report	1,2
Progress Report	1,4

Annual Outturn Report	1,3,5
Accountability Arrangements	
Committee Annual Report	1,2
Committee Self-assessment	1

The programme itself will develop over time as new statutory responsibilities are introduced and the timetable may vary, for example, as the Council is required to close its accounts earlier each year.

<u>Membership</u>

The Committee will consist of 6 members appointed by Full Council. In addition the Executive Member for Resources will also attend each Committee meeting.

The Leader of the Council and all Executive Members are precluded from being voting members of the Committee.

A quorum shall be 3 Members.

New Committee members will be required to undertake appropriate induction training to enable them to adequately perform their duties as and when necessary.

<u>Attendance</u>

Committee members are expected to make every effort to attend all meetings, where this is not possible a substitute should be nominated.

To achieve these objectives the Committee will depend principally on the attendance of the Chief Executive or Deputy Chief Executive, Director of Finance & Customer Services, the Director of HR, Legal & Governance and the Head of Audit & Assurance or their nominated representatives. The Council’s external auditors, external advisors and Directors may be requested to attend as and when appropriate.

<u>Reporting</u>

Minutes of Audit and Governance Committee will be formally noted by Full Council.

Further reports will be made in those cases where the Committee considers matters must be formally brought to the attention of Full Council.

Appendix 2

CIPFA PRACTICAL GUIDANCE ON AUDIT COMMITTEES – GOOD PRACTICE SELF-ASSESSMENT

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
Audit Committee purpose and governance					
1	Does the authority have a dedicated audit committee?	√			
2	Does the audit committee report directly to full council?	√			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	√			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	√			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	√			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	√			
Functions of the committee					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? ▪ good governance ▪ assurance framework ▪ internal audit ▪ external audit ▪ financial reporting ▪ risk management ▪ value for money or best value ▪ counter-fraud and corruption	√			
8	Is an annual evaluation undertaken to assess whether	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
	the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?				
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	√			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	√			
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	√			
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include: ▪ separation from the executive; ▪ an appropriate mix of knowledge and skills among the membership; ▪ a size of committee that is not unwieldy; ▪ where independent non-elected members are used, that they have been appointed using an appropriate process.	√			
13	Does the chair of the committee have appropriate knowledge and skills?	√			
14	Are arrangements in place to support the committee with briefings and training?	√			
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be	√			

REF	GOOD PRACTICE QUESTIONS	YES	PARTIAL	NO	ACTION REQUIRED
	satisfactory?				
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	√			
17	Is adequate secretariat and administrative support to the committee provided?	√			
Effectiveness of the committee					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			√	
19	Has the committee evaluated whether and how it is adding value to the organisation?	√			
20	Does the committee have an action plan to improve any areas of weakness?	√			

Appendix 3

CIPFA'S AUDIT COMMITTEES PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES (2013 EDITION)
Evaluating the Effectiveness of the Audit Committee

Assessment key

5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this

Blackburn with Darwen Borough Council Audit Committee Effectiveness Assessment 2017/18

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making.	Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	The Audit & Governance Committee reviews the draft AGS prior to approval. It also reviews the Risk Management Annual Report and annual opinions from Internal Audit (IA) and External Audit which support the AGS. The Committee approves the IA annual audit plan, which classifies audit reviews by assurance area to ensure adequate coverage of risk, governance and control frameworks. It receives a summary of key findings and opinions from individual reviews supporting the overall opinion. Partnership arrangements are not covered by the current terms of reference. However the Committee does receive a report on the Council's Significant Partnerships Register.	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
		The Committee Chair is a member of the Primary Assurance Group, which reviews the AGS and related assurance reports.	
Contributing to the development of an effective control environment.	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	Regular Internal Audit Progress Reports are presented to Committee includes percentage of recommendations implemented and commentary re outstanding 'must' level recommendations. Senior officers attend the Committee meetings to update on the progress of actions from key reports as and when appropriate, to provide explanations and updates on significant audit concerns. The Committee reviews the summary of MAF red priority areas of concern. The Committee is also authorised by the Council to investigate any activity within its terms of reference and to seek any information it requires from any employee, including those of partner organisations, and all employees are directed to co-operate with any request made by the Committee.	5
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements.	The Committee receives the annual risk management report which includes key events and achievements for the previous year and key developments for the next 12 months. The corporate risk register summary identifies risk owners at Director/senior officer level and tracks changes to risk scores. Regular reports are presented to Committee on the corporate risk register and risk	5

Areas where the audit committee can add value by supporting improvement	**Examples of how the audit committee can add value and provide evidence of effectiveness**	**Self-evaluation, examples, areas of strength and weakness**	**Overall assessment: 5 – 1 See key above**
manage risks.	Holding risk owners to account for major/strategic risks.	management support activity during the year. The Committee carries out a ‘deep dive’ review of one or more corporate risks with the relevant risk owner or key contact at each meeting.	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	Regular reporting of planned and actual coverage by Internal and External Audit. Committee challenge opportunities for reliance on IA work by External Auditors and receives Internal and External Audit and Risk Management progress reports. The IA report includes audits in progress and in-year review of resources and achievement of plan. IA have reviewed and provided assurance on risk management arrangements in 2015/16.	4
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	The Head of Audit & Assurance has right of access to and regular briefings for the Chair of the Audit & Governance Committee. The Committee receives and approves the IA Charter and annual strategic statement, including reporting and monitoring arrangements, supporting the IA annual plan. The External Auditors Audit Findings Report includes commentary on Internal Audit as part of their assessment of financial control arrangements. The Committee reviews the Internal Audit Quality Assurance Improvement Plan. The annual Head of Audit Opinion Report includes an assessment of IA performance and quality assurance. Committee approved Peer review approach for external assessment of IA compliance with Public Service Internal Audit Standards and received the overall opinion and a	5

Areas where the audit committee can add value by supporting improvement	**Examples of how the audit committee can add value and provide evidence of effectiveness**	**Self-evaluation, examples, areas of strength and weakness**	**Overall assessment: 5 – 1 See key above**
		summary of the findings and themes from the Peer review action plan at its April meeting.	
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Work on this area is included in Internal and External Audit plans on a risk assessment basis. IA reviews are classified under one of the three headings in the plan and the annual report. Plans include reviews of key capital and revenue projects. Additional ad hoc work is carried out during the year on request by Directors. Internal audit progress report includes a summary of MAF red priority areas of concern. Performance management is not specifically identified in the Committee Terms of Reference. There are other processes in place within the Council's governance structure which provide scrutiny and challenge for this area, as part of the Corporate Plan Scorecard monitoring arrangements, to hold Chief Officers and managers to account on a regular basis, such as Management Board and the PAM reporting process as well as Members through PDS, SPT and Executive Board reporting. Internal audit consider performance arrangements as part of any relevant audit and would report on them as part of our progress reporting arrangements. The IA plan also includes specific KPI audits.	4

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Standing Financial Instruction 3, Procurement and the Payment of Creditors, and Corporate Contract & Procurement Procedure Rules are in place as part of the control framework to ensure that value for money is considered in procurement activity. Regular Creditors audits consider on compliance with these requirements. The Committee receives the External Auditors Combined Audit Findings and Value for Money Report.	4
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's *Managing the Risk of Fraud* (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and members.	A Counter Fraud Policy and Strategy is in place (which was reviewed and updated in 2015/16 in accordance with latest CIPFA guidance) supported by the Counter Fraud Policy Framework which includes a Fraud Response Plan, Whistleblowing Policy, Anti Money Laundering Policy and Members and Employees' Codes of Conduct. The Internal Audit progress reports include oversight of counter fraud activity and results. The Committee consider and approve the annual fraud risk assessment as part of the External Auditor's enquiries of those charged with governance and have approved the Counter Fraud Plan as part of Internal Audit annual plan 2017/18. The Committee receives the Counter Annual Report as part of the suite of annual reports which is considered prior to approval of the Annual Governance Statement:	5

Areas where the audit committee can add value by supporting improvement	**Examples of how the audit committee can add value and provide evidence of effectiveness**	**Self-evaluation, examples, areas of strength and weakness**	**Overall assessment: 5 – 1 See key above**
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.	Audit & Governance Committee meetings are held in public with minimal Part 2 items. Agendas and reports are published on Council internet website. Council Committee agendas, reports and minutes are also available on the internet via the Council website along with Executive Members' and Officer decisions. Consideration of Partnership arrangements is not currently included in the Committee's terms of reference. However a corporate Partnership Governance Framework is in place, which includes a Governance Checklist and the Committee receives a report on the Council's Significant Partnerships Register.	4

Appendix 4

2017/18 Member Attendance and Committee Work Programme

Four meetings were held during the year. The following Member attendance was recorded:

Councillor/Date	13 June 2017	19 September 2017	9 January 2018	10 April 2018
Salim Sidat MBE (Chair)	✓	✓	✓	✓
Ron Whittle	✓	✓	✓	✓
Vicky McGurk	✓	✓	✓	✓
David Foster	✓	✓	✓	**A**
Jim Casey	**A**	✓	✓	**A**
Keith Murray	**A**	✓	✓	✓

✓ = attended meeting A = sent apologies

Audit & Governance Committee Work Programme 2017/18					
PROGRAMME ACTIVITY:	**TERMS OF REF. NUMBER**	**JUNE**	**SEPTEMBER**	**JANUARY**	**APRIL**
Governance, Risk and Control					
Annual Statement (AGS)	1,2,3	√			
AGS Progress Report	1,2			√	
Risk Management Annual Report	3,5,6,7	√			
Annual Counter Fraud Report	3,9,10	√			
Annual Internal Audit Opinion Report	3,5	√			
External Audit Findings and VFM Report	4		√		
Annual Audit Letter	1,5			√	
MAF Update	5	√		√	
Risk Management Update	5,6,7		√	√	√
Corporate Health, Safety & Wellbeing Annual Report	3,5,6,7	√			
IA Progress & Outcomes Report	8,10	√	√	√	√

PROGRAMME ACTIVITY:	TERMS OF REF. NUMBER	JUNE	SEPTEMBER	JANUARY	APRIL
Confirmation External Auditor Appointment	1			√	
Management Assurance Report – Response from Those Charged with Governance	9				√
Significant Partnerships Register	5	√			
Reports from Other Committees or agencies	11	As Required	As Required	As Required	As Required
Internal Audit					
Annual Plan	1,2,4				√
IA Progress & Outcomes Report	3,4,5,7,8	√	√	√	√
Annual Internal Audit Opinion Report	6,9,10,11	√			
External Audit					
Annual Audit Letter	1,5			√	
Management Assurance Report – Response to External Audit from Those Charged with Governance	1				√
Annual Plan	2,5				√
Progress Report	2	√		√	√
Findings Report	2,5		√		
Grant Certification Report	2				√
Value For Money Conclusion	3,5		√	√	
Fees Letter	4,5			√	
Confirmation of External Auditor Appointment				√	
Financial Reporting					
Statement of Accounts	1		√		
Management Assurance Report - Response to External Audit from Those Charged with Governance	1				√
External Audit Findings Report	2		√		
Treasury Management					
Strategy Report	1,2		√		
Progress Report	1,4	√	√	√	√

PROGRAMME ACTIVITY:	TERMS OF REF. NUMBER	JUNE	SEPTEMBER	JANUARY	APRIL
Annual Outturn Report	1,3,5		√		
Accountability Arrangements					
Committee Annual Report	1,2	√			
Committee Self-Assessment	2			√	