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# Audit & Governance Committee

## Tuesday, 16th October, 2018
## Meeting Room A,
## Town Hall, Blackburn
## 5.45 pm

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**AGENDA**

activity.

| | |
|---|---|
| **Treasury Mgmt Report to Audit and Governance Cttee**<br>**Copy of Appendix 1**<br>**Copy of Appendix 2**<br>**Copy of Appendix 3**<br>**Copy of Appendix 4**<br>**Copy of Appendix 5** | **45 - 57** |

**8. Treasury Management Mid-Year Strategy Review 2018/19**

The Director of Finance & Customer Services will provide the Committee with a Mid-Year Strategy Review for 2018/19.

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| **Treasury Mgmt Mid-Year Strategy Review 2018-19**<br>**Treasury Mgmt Mid-Year Strategy Review Appendix 1 - Blackburn with Darwen BC 2018-19 Investment Criteria_** | **58 - 65** |

**9. Audit & Assurance - Progress & Outcomes to September 2018**

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

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| **AA Progress Report Q2** | **66 - 69** |

**10. Risk Management - 2018/19 Quarter 1 Review**

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

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| **Risk Management 2018.19 Quarter 1**<br>**Risk Management Appendix 1** | **70 - 73** |

**PART 2: THE PRESS AND PUBLIC MAY BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEMS:**

Date Published: Monday, 08 October 2018
Harry Catherall, Chief Executive

**AUDIT COMMITTEE**
**Tuesday, 24th July 2018**

**PRESENT** – *Councillors Sidat (in the Chair) Casey, Rigby and Whittle.*

**ALSO PRESENT**

| | | |
|---|---|---|
| Councillor Andy Kay | - | Executive Member Resources |
| John Farrar | - | External Auditor |
| Thilina De Zoysa | - | External Auditor |
| Louise Mattinson | - | Director of Finance and Customer Services |
| Simon Ross | - | Head of Finance |
| Gaynor Simons | - | Deputy Finance Manager |
| Julie Jewson | - | Senior Finance Manager |
| Colin Ferguson | - | Head of Audit and Assurance |
| Phil Llewellyn | - | Governance and Democratic Manager |

**1. Welcome and Apologies**

The Chair welcomed all present to the meeting. Apologies were received from Councillors Vicky McGurk and John Pearson.

**2. Minutes of the meeting held on 10th April 2018**

The minutes of the meeting held on 10th April 2018 were agreed as a correct record, subject to the amendment of the following: Minute Number 36 (External Audit Grant Certification Work) – second line should read 2017, not 2018.

**3. Declarations of interest**

Councillor Ron Whittle declared an interest as the Council's pension representative.

**4. External Audit – Findings Report 2017/18**

The Council's External Auditors provided Members with a Finding Report for 2017/18. The Findings Report summarised the outcomes from the 2017/18 audit, which was substantially complete. It also included messages arising from the auditing of the Council's financial statements and the results of the work External Audit had undertaken to assess Council arrangements to secure value for money in the use of resources.

It was reported that in terms of value for money, based on External Audits work, and having regard to the guidance on the specified criteria published by the National Audit Office, it was noted that External Audit were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018. Subject to outstanding queries being resolved, it was anticipated that an unqualified audit opinion would be reported.

**RESOLVED:**

1) That the External Audit Findings Report 2017/2018 be noted; and

2) That the Director of Finance and Customer Services and the Finance Department be thanked for hard work and support during the external audit process.

**5. <u>Statement of Accounts 2017/18</u>**

A report was submitted which outlined the issues arising from the external audit of the Council's 2017/18 Statement of Accounts, and requests Audit & Governance Committee approval of the audited accounts prior to their publication by 31st July 2018.

The Accounts and Audit Regulations 2015 required 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 would 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 had been made to the accounts in line with audit findings to date.

**RESOLVED –**

1.) That the Audit & Governance Committee 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; and

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.

## 6. Treasury Management Report – March to June 2018

The Director of Finance & Customer Services provided the Committee with a report on the Treasury Management Quarterly report covering the period March to June 2018.

The Council had 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 had been issued, and the impact of this was still under review. The CIPFA Code, Investment Guidance issued by CLG and Audit & Assurance reviews of Treasury Management activities all recommended a strong role for elected members in scrutinising the Treasury Management function of the Council.

This report summarised the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reported on the position against Treasury and Prudential Indicators established by the Council.

**RESOLVED –**
That the 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.

## 7. Treasury Management Annual Report 2017/18

A report was submitted which outlined the Treasury outturn for 2017/18, as also reflected in the 2017/18 Outturn Corporate Monitoring Report (5 July Executive Board).

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

The CIPFA Treasury Management Code required 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 updated the Audit and Governance Committee on the overall outturn position for 2017/18.

**RESOLVED –** That the Audit and Governance Committee note the Outturn position for 2017-18.

## 8. Audit & Assurance–Progress & Outcomes to June 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 1 March 2018 to 30 June 2018.

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

**RESOLVED -** That the Committee notes the outcomes achieved to 30 June 2018 against the Audit & Assurance Plan, which was approved by Committee on 10 April 2018.

## 9. Corporate Annual Report on Health, Safety & Wellbeing 2017/18

Members received the Health, Safety & Wellbeing annual report and the Employee Wellbeing Statement.

It was reported that the Corporate Annual Report - Health, Safety & Wellbeing – 2017/2018 provided Members with a summary of the Council's performance in managing health and safety over the year that ended 31 March 2018.

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

The report covered key areas such as Performance for 2017/18, Key activities during the year and Priorities for the next 12 months.

**RESOLVED –** That the report be noted.

## 10. Annual Risk Management Report 2017/18

The Director of Finance and Customer Services provided the Committee with an Annual Risk Management Report for 2017/2018. Members were asked to consider and review the Report. The Committee was also requested to agree on the overall effectiveness of the Council's risk management arrangements in place during 2017/18.

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

**RESOLVED -** That the Committee note the annual risk management report; and agree with the conclusion on the overall effectiveness of the Council's risk management arrangements in place during 2017/18.

## 11. Annual Counter Fraud Report 2017/18

A report was submitted which informed 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.

**RESOLVED-** That the Annual Counter Fraud Report (as set out in Appendix A of the report submitted) be noted.

## 12. Annual Internal Audit Opinion Report 2017/18

The Committee was advised that the Council was 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 report submitted complied with the requirements of the Public sector Internal Audit Standards and included a summary of the work that supported 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 stated whether the work had been undertaken in conformance with PSIAS, the results of any Quality Assurance Improvement Programme, summary of actual performance against targets/measures and any issues that are considered relevant to the preparation of the Annual Governance Statement.

**RESOLVED –** That the Committee:

- Note the content of the Annual Internal Audit Opinion Report for 2017/18 (as set out in Appendix A);
- 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

- 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.

**13. Annual Governance Statement for 2017/18**

The draft Annual Governance Statement was submitted for approval. The Statement noted that there would always be risks that must be managed effectively. Whilst it recognised that due diligence would not always ensure that it gets things right first time, it continued to put in place assurance frameworks and enhance existing arrangements that were intended to ensure that its system of governance was fit for purpose and had flexibility to meet the challenges that the change agenda brought.

The Resources Directorate had 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.

**RESOLVED –** That the Annual Governance Statement for 2017/18 be approved.

## 14. Audit & Governance Committee Annual Report 2017/18

The draft Audit & Governance Committee Annual Report 2017/18 was submitted for consideration and approval at Appendix A. This summarised the work that the Committee had undertaken during the year to demonstrate that it has fulfilled its agreed terms of reference.

The Audit & Governance Committee was a key component of the maintenance of an adequate and effective governance framework. Through its annual report the Committee could 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 affected its exposure to risk and weakens the control environment.

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.

The Committee discussed the report and it was noted that the agenda for the meeting had been over 300 pages long, and there were a lot of items on the agenda due to the recent changes in deadlines for the publishing of the Statement of Accounts, with many of the reports linked to the Annual Governance Statement. It was suggested that consideration be given to splitting items across two meetings instead of one, with a potential extra meeting added or briefing session on the Accounts arranged. The Chair agreed to discuss these options further with the Head of Audit and Assurance.

**RESOLVED –**

1)That the Annual Report, including the statement on its effectiveness during 2017/18 and the draft effectiveness self-assessment evaluation be approved;

2)That the report be referred to Full Council for endorsement; and

3)That the Chair be requested to look at options for agenda management as discussed.

**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: **16th October 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)

# Annual Audit Letter

*Year ending 31 March 2018*

Blackburn with Darwen Borough Council

August 2018

# Contents



**Your key Grant Thornton team members are:**


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# Executive Summary

**Purpose**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Blackburn with Darwen Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 24 July 2018.

**Respective responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

**Our work**



| | |
|---|---|
| **Materiality** | We determined materiality for the audit of the Council's financial statements to be £7,988,000, which is 2**%** of the Council's gross revenue expenditure. |
| **Financial Statements opinion** | We gave an unqualified opinion on the Council's financial statements on 31 July 2018. |
| **Whole of Government Accounts (WGA)** | We completed work on the Council's consolidation return following guidance issued by the NAO. |
| **Use of statutory powers** | We did not identify any matters which required us to exercise our additional statutory powers. |

# Executive Summary

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|---|---|
| **Value for Money arrangements** | We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Audit and Governance Committee on 31 July 2018. |
| **Certification of Grants** | We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter. |
| **Certificate** | We certified that we have completed the 2017/18 audit of Blackburn with Darwen Borough Council in accordance with the requirements of the Code of Audit Practice on 3 August 2018. |

### Working with the Council



During the year we have delivered a number of successful outcomes with you. Some of them were:

- Conducting an efficient audit – we managed and delivered an efficient audit with your co-operation. Considering the changes to your financial ledger in 2017/18 and shorter audit deadline compared to previous years, working efficiently with your finance staff to achieve shared goals.
- Sharing our insight – we provided regular updates to the Audit and Governance Committee, covering best practice and sector updates. We conducted regular liaison meetings with your senior management on matters that are important to the Council and us as your external auditor.
- Providing training – we provided your finance teams with training on financial accounts and annual reporting to better prepare for the 2017/18 accounts closedown

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**
**August 2018**

# Audit of the Accounts

## Our audit approach

**Materiality**
In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions by reading the financial statements.

We determined materiality for the audit of the Council's accounts to be £7,988,000 which is 2**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its income in the year.

We also set lower level of specific materialities for senior officer remuneration and related party transactions of £25,000 and £100,000 respectively.

We set a lower threshold of £395,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

**The scope of our audit**
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's activities and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Accounts

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Valuation of Land and Buildings**<br><br>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.<br><br>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration | In addressing the valuation risk, we:<br>• 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<br>• assessed the competency, experience and objectivity of the external valuer<br>• 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<br>• identified the data provided to and/or obtained by the valuer to inform the valuation process and confirmed the appropriateness of the data used<br>• 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<br>• 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 did not identify any material matters in relation to the valuation of land and buildings.<br><br>We identified some areas that the Council could further improve its processes in relation to valuation and reporting of land and buildings and reported these areas in our Audit Finding Report which was presented to the Audit and Governance Committee on 24 July 2018. |

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# Audit of the Accounts

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Valuation of pension fund net liability**<br><br>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.<br><br>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration | In addressing the pension fund net liability valuation risk, we:<br><br>• 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<br>• 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<br>• undertook procedures to confirm the reasonableness of the actuarial assumptions made, particularly if these are specific to Blackburn with Darwen Borough Council<br>• 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<br>• 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 did not identify any material issues in relation to valuation of pension fund net liability. |

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# Audit of the Accounts

## Significant Audit Risks (continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Implementation of a new General Ledger system**<br><br>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.<br><br>The General Ledger is at the heart of an organisation's accounting process and directly associated with preparation of financial statements.<br><br>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.<br><br>Accuracy and completeness of data migration from an old to a new system is paramount for transparent financial reporting. There is a inherent risk of error in data migration due to human and technological errors in such data transfers.<br><br>We identified the implementation of a new General Ledger system as a risk requiring special audit consideration. | In addressing the implementation of the new General Ledger system risk, we:<br><br>• 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<br>• evaluated the general IT controls around such transfers with the support of our IT specialists<br>• examined and agreed the accuracy of the opening balances as at 1 April 2017 against 31 March 2017 audited accounts to confirm these had been completely and accurately brought forward to the new Civica ledger system. | Our audit work did not identified any issues relating to accuracy and completeness of data transfer from the old to new ledger system. |

# Audit of the Accounts

## Significant Audit Risks (continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
| --- | --- | --- |
| **Management override of controls**<br>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.<br>Management over-ride of controls is a risk requiring special audit consideration. | In addressing the management override of controls risk, we:<br>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness<br>• obtained a full listing of journal entries during the year, and identified and tested high risk journal entries for appropriateness and correct treatment<br>• evaluated the rationale for any changes in accounting policies or significant unusual transactions. | Our audit work did not identify any issues regarding management override of controls. |

# Audit of the Accounts

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

**Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

**Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 24 July 2018. There were no adjustments to the financial statements impacting on the Statement of Comprehensive Income and Expenditure and the Balance Sheet.

In addition to the key audit risks reported on pages 6 to 9, we made a small number of recommendations to support the Council in strengthening its internal controls. Management agreed to action our recommendations and we will follow this up during our 2018/19 audit of the Council.



**Annual Governance Statement and Narrative Report**

We are required to review the Council’s Annual Governance Statement and Narrative Report. The Council published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We were satisfied that both documents were consistent with the financial statements we audited and in line with our knowledge of the Council obtained during the course of our audit.

**Whole of Government Accounts (WGA)**

We carried out work on the Council’s Data Collection Tool in line with group audit instructions provided by the NAO. We issued an assurance statement to the NAO which confirmed the Council was below the audit threshold. There were no other matters to report to the NAO in connection with group audit instructions.

## Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections in relation to the accounts.

We did not need to exercise any of our additional statutory powers or duties during the course of our audit.

## Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Blackburn with Darwen Borough Council in accordance with the requirements of the Code of Audit Practice and applicable law.

On 3 August 2018, we certified that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We identified one significant risk as part of this assessment. Our continuing risk assessment during the course of the audit did not identify any further significant risks.

Work we performed and our findings are summarised on page 12 of this Letter.



## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

## Key findings

### 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 Council’s Finance Committee 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 was set for 2018/19 with a net expenditure of £131.5 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 have been identified and agreed, the business cases and programmes to underpin each are currently in development and not yet finalised.
- The actual net revenue expenditure for the year ended 31st March 2018 was £133.9 million, compared to an original budget of £124.3 million. The extra £9.6m expenditure was mainly funded through £3.59m, additional improved Better Care Funding, achievement of savings plans around £2.5m and utilisation of approximately £3.5m of reserves held for discretionary use by the Council.
- Total earmarked reserves stand at £13.1 million at 31st March 2018, comprising discretionary reserves for use by the Council of £11 million and reserves that are non-discretionary and specified for specific purposes of £2.1 million
- The Council continued to work on contingency planning in 2017/18 under challenging service demands and financial pressures.

### Conclusion

**Auditor view**

- The Council has a track record of managing expenditure within budget. However with increasing funding cuts from central government and 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 that by October 2018 the Council will have completed its thematic review and identified savings plans, individual business cases and programmes to underpin each plan.
- As part of the thematic review, the Council should further consider contingency planning if things do not go to plan, including delivery of savings.

# Reports issued and fees

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

### Reports issued

| Report | Date issued |
|---|---|
| Audit Plan | 8 April 2018 |
| Audit Findings Report | 24 July 2018 |
| Annual Audit Letter | 31 August 2018 |

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### Fees

| | Planned £ | Actual fees £ | 2016/17 fees £ |
|---|---|---|---|
| Statutory Council audit | 102,839 | 106,839 | 102,839 |
| Housing Benefit Grant Certification | 15,413 | TBC* | 14,910 |
| **Total fees** | **118,252** | **TBC*** | **117,749** |

As reported in our Audit Finding Report to the Audit and Governance committee on 24 July 2018, the final fee for the Council Audit was increased by £4,000 due to the new enhanced audit report requirements for 2017/18. This is due to the Council being a 'Public Interest Entity' (PIE). The Council has listed debt of approximately £250,000 on the London Stock Exchange. An entity with listed debt is a 'PIE', which has enhanced audit reporting requirements under ISA (UK) 700. We reported the key changes impacting the auditor's report and additional disclosures on PIE entities audit reports in our 2017/18 Audit Plan issued in April 2018.

* Our work on Housing Benefit Grant Certification is still on going and the reporting deadline for this is 30 November 2018. Therefore we are unable to confirm the actual fees for this work in the Annual Audit Letter.

### Fees for non-audit services

| Service | Fees £ |
|---|---|
| **Audit related services**<br>- Certification of Teacher's pension return | 4,200 |
| **Non-Audit related services**<br>- Chief Finance Officer Insights and Place Analytics subscription | 23,000 |
| **Total audit-related and non-audit fees** | **27,200** |

### 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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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Grant Thornton

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Louise Mattinson
Financial Services Manager
Resources Directorate
Blackburn with Darwen Borough Council
Town Hall
Blackburn
Lancashire
BB1 7DY

17 April 2018

Dear Louise,

## Planned audit fee for 2018/19

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the PSAA website.

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

## Scale fee

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18 (£102,839). Further details are set out on the PSAA website. The Council's scale fee for 2018/19 has been set by PSAA at £79,186.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

**Scope of the audit fee**

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the NAO website.

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

## Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

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

The NAO guidance identifies one single criterion for auditors to evaluate:
*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Billing schedule

Fees will be billed as follows:

| Main Audit fee | £ |
|---|---|
| September 2018 | 19,769.50 |
| December 2018 | 19,769.50 |

| | |
|---|---|
| March 2019 | 19,769.50 |
| June 2019 | 19,769.50 |
| **Total** | **79,186** |

## Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2018 to February 2019. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and July 2019 and work on the whole of government accounts return in July 2019.

| Phase of work | Timing | Outputs | Comments |
|---|---|---|---|
| Audit planning and interim audit | November 2018 to February 2019 | Audit plan | The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM. |
| Final accounts audit | June 2019 and July 2019 | Audit Findings (Report to those charged with governance) | This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance. |
| VfM conclusion | November 2018 to February 2019 | Audit Findings (Report to those charged with governance) | As above |
| Whole of government accounts | July 2019 | Opinion on the WGA return | This work will be completed alongside the accounts audit. |
| Annual audit letter | September 2019 | Annual audit letter to the Council | The letter will summarise the findings of all aspects of our work. |

## Our team

The key members of the audit team for 2018/19 are:

| Role | Name | Phone Number | E-mail |
|---|---|---|---|
| Engagement Lead | John Farrar | 0161 234 6384 | John.Farrar@uk.gt.com |
| Engagement Manager | Thilina De Zoysa | 0113 245 5514 | Thilina.De.Zoysa@uk.gt.com |

## Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

## Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Sarah Howard, our Public Sector Assurance regional lead partner, via Sarah.Howard@uk.gt.com.

Yours sincerely

John Farrar
Engagement Lead
For Grant Thornton UK LLP

# Audit Progress Report and Sector Update

Blackburn with Darwen Borough Council
Year ending 31 March 2019

October 2018

# Contents

# Introduction

**John Farrar**

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Page 32

**Thilina De Zoysa**

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority. It includes emerging issues which the Committee may wish to consider as relevant to the Authority (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk .

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at 2 October 2018

## 2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We certified that we have completed the 2017/18 audit of Blackburn with Darwen Borough Council in accordance with the requirements of the Code of Audit Practice on 3 August 2018

Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

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## 2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

### Meetings

We met with senior Finance Officers in July as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also conduct regular meetings with your Strategic and Corporate Directors to discuss the Council's strategic and corporate priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

| 2017/18 Deliverables | Planned Date | Status |
|---|---|---|
| **Annual Certification Letter**<br>This letter reports any matters arising from our certification work carried out under the PSAA contract. | December 2018 | Not yet due |

| 2018/19 Deliverables | Planned Date | Status |
|---|---|---|
| **Fee Letter**<br>Confirming audit fee for 2018/19. | April 2018 | Issued in April 2018. See separate agenda item to this Committee |
| **Accounts Audit Plan**<br>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements. | January 2019 | Not yet due |
| **Interim Audit Findings**<br>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report. | March 2019 | Not yet due |
| **Audit Findings Report**<br>The Audit Findings Report will be reported to the July Audit Committee. | July 2019 | Not yet due |
| **Auditors Report**<br>This is the opinion on your financial statement, annual governance statement and value for money conclusion. | July 2019 | Not yet due |
| **Annual Audit Letter**<br>This letter communicates the key issues arising from our work. | August 2019 | Not yet due |
| **Annual Certification Letter**<br>This letter reports any matters arising from our certification work for the 2018/19 year | December 2019 | Not yet due |

# Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to explore further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Accounts and audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

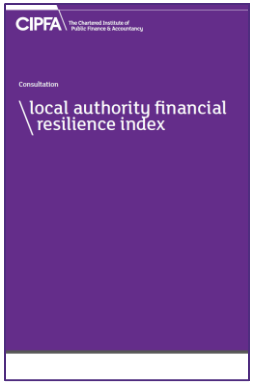
- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.



# MHCLG – Social Housing Green Paper



The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
https://www.gov.uk/government/consultations/a-new-deal-for-social-housing

# MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.



This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

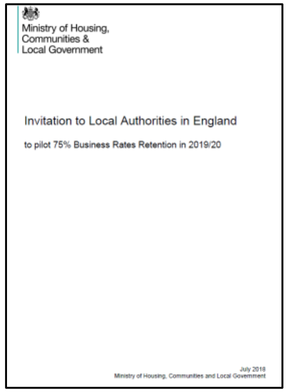
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.


Ministry of Housing, Communities & Local Government

Invitation to Local Authorities in England

to pilot 75% Business Rates Retention in 2019/20

July 2018
Ministry of Housing, Communities and Local Government

# Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

### Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula.  A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

### Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

### The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

# National Audit Office – The health and social care interface

The NAO has published its latest 'think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a 'whole system' sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.



The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

**Financial challenges** – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

**Culture and structure** – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing. person-centred care.

**Strategic issues –** include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government's unrealistic expectations of the pace at which the required change in working practices can progress..

This 'think piece' draws on the NAO's past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission's review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO's website at:
https://www.nao.org.uk/report/the-health-and-social-care-interface/

# Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.



Flourishing communities are not a ‘nice to have’ but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care’s 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website

# The Vibrant Economy Index
# a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.grantthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy.**

**Vibrant Economy app**

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

*To download the app visit your app store and search 'Vibrant Economy'*

- *Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)*
- *Explore the app and take the quiz*
- *Go to the Vibrant Ideas section to share your picture and story or idea*

# Links

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National Audit Office link

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Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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# BRIEFING PAPER

| | |
|---|---|
| **REPORT to :** | Audit and Governance Committee |
| **LEAD OFFICER:** | Director of Finance And Customer Services |
| **DATE:** | 16th October 2018 |

BLACKBURN with DARWEN BOROUGH COUNCIL

**WARD/S AFFECTED:** All

## TREASURY MANAGEMENT REPORT – 2018/19

**Based on monitoring information for the period 1st July 2018 – 30th September 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 the potential for the Council to take 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 Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments. New CIPFA and MHCLG guidance has been issued and the impact of this is still under review. The CIPFA Code, the Investment Guidance issued by MHCLG and the Internal 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 was increased in August from 0.50% to 0.75%. There were consequent increases in the quoted rates in financial markets, and in the interest paid on investments by some banks; the rates at which local authorities lend to each other also increased.

This will put pressure on the Council's Interest Payable budget, which will be reflected in budget monitoring reports.

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 between 0.60% and 0.65%. Bank account rates vary, paying from 0.05% to 0.65%.

For limited periods, funds were also placed with the Government's Debt Management Office (typically at 0.5%). The other fixed term investments made were:

| Start Date | End Date | Counterparty | Amount | Rate % |
|---|---|---|---|---|
| 14-Aug-18 | 19-Oct-18 | Tameside MBC | £3,000,000 | 0.60 |
| 17-Sep-18 | 15-Oct-18 | Blackpool | £2,000,000 | 0.65 |
| 09-Aug-18 | 07-Sep-18 | Cheltenham BC | £2,000,000 | 0.65 |
| 28-Aug-18 | 05-Sep-18 | Gwynedd | £3,000,000 | 0.68 |
| 03-Sep-18 | 03-Oct-18 | City of Nottingham | £2,000,000 | 0.65 |
| 07-Sep-18 | 14-Dec-18 | National Counties Building Society | £1,000,000 | 0.81 |
| 27-Sep-18 | 26-Oct-18 | Thurrock MBC | £3,000,000 | 0.80 |

At 30th September, the Council had approximately £24.6 M invested, compared to £21.4 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 approximately 0.56%.

For comparison, benchmark LIBID (London Interbank Bid) rates remained fairly stable; the average rate for 1 month's lending was around 0.54% (holding at around 0.6% at period end), and for 3 months it was around 0.66% (and holding at around 0.68% 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. Although we have not taken new long term loans, if we were to do so, the cost would be higher than a year ago. Over the last quarter rates have stabilised overall, and new 5 year "certainty" loans cost around 1.9% (usually ranging between 1.8% and 2.0%), while loans from 20 to 50 years cost around 2.65% (ranging between 2.5% and 2.8%).

Short term borrowing rates, based on loans from other councils, remain historically low. They are now starting to move steadily, albeit slowly, upwards. At present 3 month loans cost around 0.80%, while loans from 6 months to 1 year are between 0.85% and 1.15%. Though the broad trend has been, and is expected to continue slowly upwards, it is unclear how rates will move in the run up to Brexit.

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) smaller balances 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 £3M, as loans of £28M were repaid and **£31M of new loans** were taken (listed below).

| **New loans taken in the period** | | | | |
|---|---|---|---|---|
| **Start Date** | **End Date** | **Counterparty** | **Amount £** | **Rate** |
| 27/07/2018 | 31/07/2018 | Thurrock District Council | 3,000,000 | 0.42% |
| 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% |
| 07/08/2018 | 29/04/2019 | Gwent Police | 3,000,000 | 0.85% |
| 24/09/2018 | 25/03/2019 | Kent Police | 3,000,000 | 0.80% |
| 27/09/2018 | 08/03/2019 | London Borough of Newham | 5,000,000 | 0.68% |
| 28/09/2018 | 28/03/2019 | Tendring District Council | 4,000,000 | 0.68% |
| | | | **31,000,000** | |

| **Future deals already agreed by end of period** | | | | |
|---|---|---|---|---|
| **Start Date** | **End Date** | **Counterparty** | **Amount £** | **Rate** |
| 18/10/2018 | 18/02/2019 | Basildon District Council | 3,000,000 | 0.85% |
| 29/10/2018 | 29/01/2019 | Preston City Council | 3,000,000 | 0.77% |
| 01/11/2018 | 01/05/2019 | Tendring District Council | 2,000,000 | 0.85% |
| | | | **8,000,000** | |

4.5 Current debt outstanding -

The key elements of long term borrowing set out below are:

(a) £18M classed as bonds, borrowed from the money markets, largely in the form of "LOBO"

(Lender Option, Borrower Option) debt. 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%.

(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 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 payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

| | 30th June 2018 | | 30th Sept 2018 | |
|---|---|---|---|---|
| . | £000 | £000 | £000 | £000 |
| TEMPORARY DEBT | | | | |
| Less than 3 months | 0 | | 0 | |
| Greater than 3 months (full duration) | 69,000 | | 72,000 | |
| | | 69,000 | | 72,000 |
| LONGER TERM DEBT | | | | |
| Bonds | 18,003 | | 18,003 | |
| Mortgages | 17 | | 17 | |
| PWLB | 103,783 | | 103,783 | |
| Stock & Annuities | 258 | | 258 | |
| | | 122,061 | | 122,061 |
| Lancashire County Council transferred debt | | 15,352 | | 15,045 |
| Recognition of Debt re PFI Arrangements | | 66,419 | | 65,990 |
| **TOTAL DEBT** | | **272,832** | | **275,096** |
| Less: Temporary Lending - fixed term | | (12,000) | | (11,000) |
| - instant access | | (9,441) | | (13,623) |
| **NET DEBT** | | **251,391** | | **250,473** |

4.6 Issues to note in the period

Over the period as a whole, net borrowing was fairly stable. Investments have been, and will continue to be kept short term, and mainly in liquid deposits.

As noted above, interest rates, while both low and volatile, have tended to be moving upwards. This increases the possibility that it may be in the Council's interest in the medium to longer term, to move towards taking more long term borrowing. Such a decision depends on a view on 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 approach taken in 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 September 2018 was, at £275.1M, which is within our Operational and Authorised Borrowing Limits for 2018/19 (£309.5M and £319.5M 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 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 £60.4M, 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 is then offset by
(b) any lending (up to 364 days).

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

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| 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. |

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|---|---|
| **VERSION:** | **0.02** |

| | |
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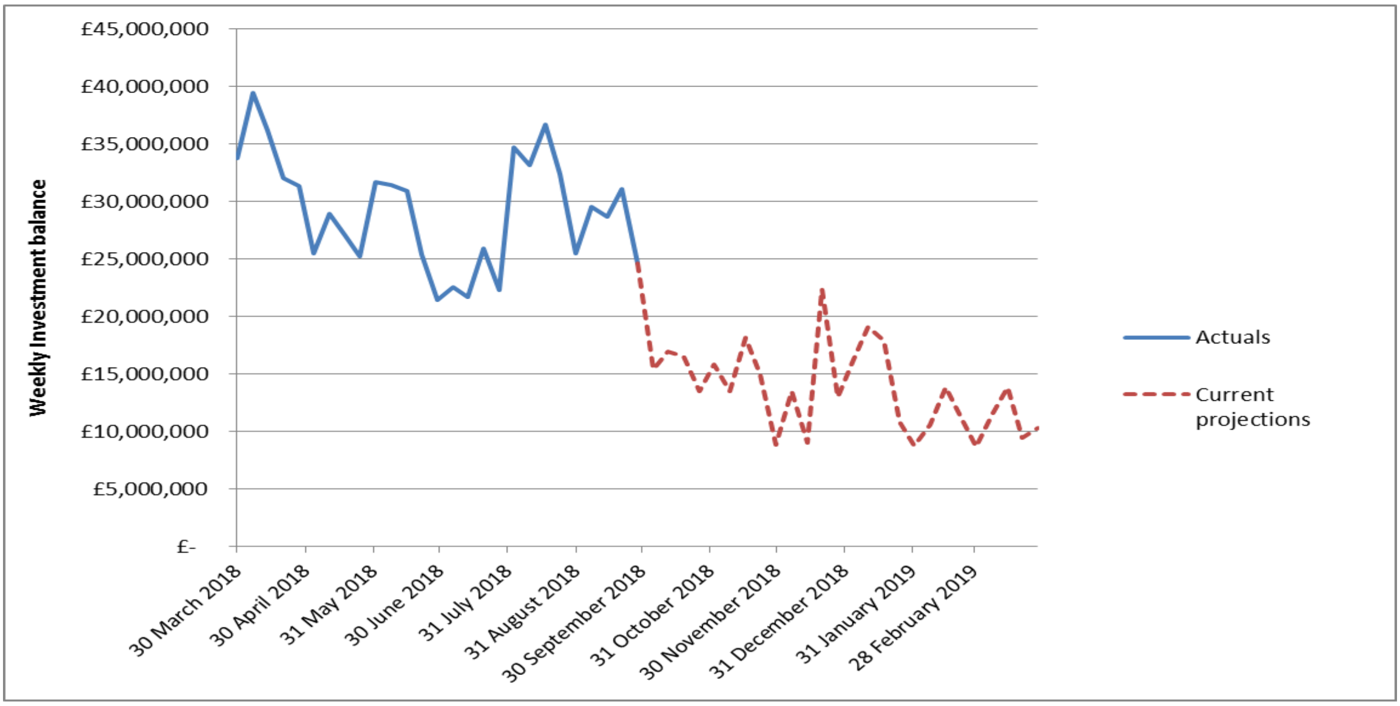
| **CONTACT OFFICER:** | Ron Turvey- Deputy Finance Manager extn 5303<br><br>Louise Mattinson Director of Finance & Customer Services extn 5600 |
| **DATE:** | 2nd October 2018 |
| **BACKGROUND PAPERS:** | CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved Finance Council 26th February 2018 |

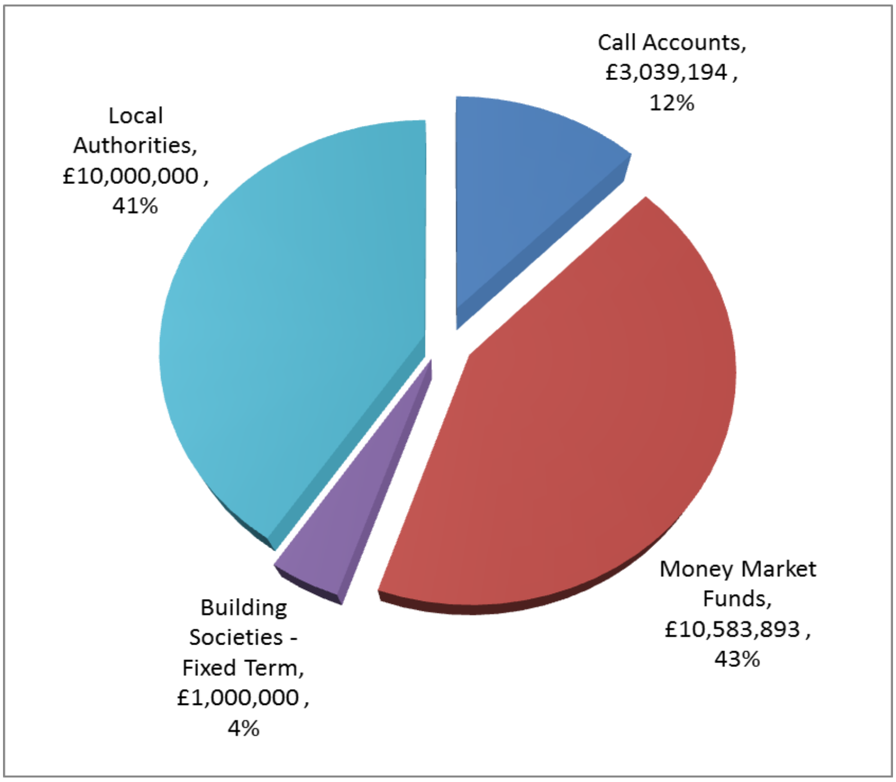
## Weekly Investment balances

Appendix 1

**Apr 18 to Mar 19**



**Investments at end of September 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 | £37 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 | LCC Debt 15.6M<br>PFI elements (no lease) 69.7M<br>Remaining elements 224.20M<br>**Operational Borrowing Limit 309.5M**<br>**Authorised Borrowing Limit 319.5M** | **Borrowing to date £M**<br>LCC Debt 15.0<br>PFI Elements 66.0<br>BwD 194.1<br>**Total 275.1** | 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 60.4 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 | | | |

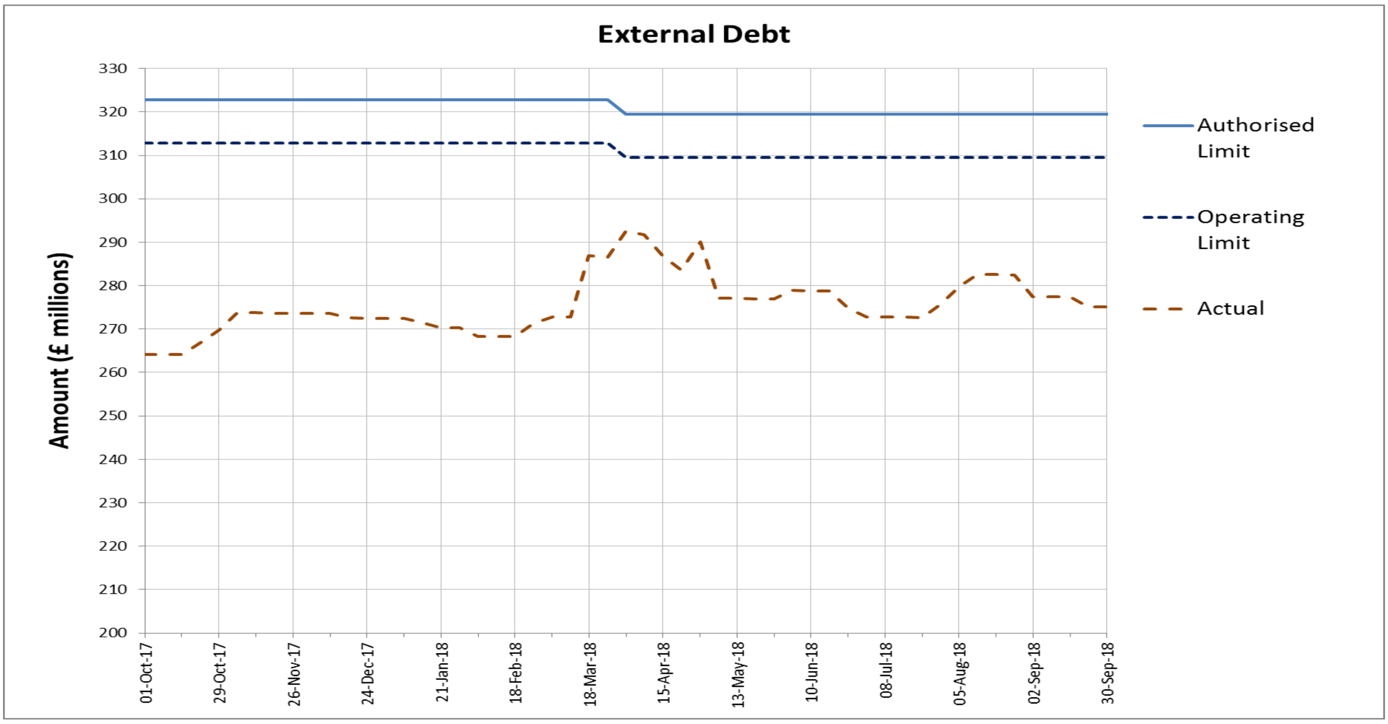
| Lower Limit | Upper Limit | Period (Years) |
|---|---|---|
| 0 | 50% | <1 |
| 0 | 20% | 1-2 |
| 0 | 30% | 2-5 |
| 0 | 30% | 5-10 |
| 25% | 95% | >10 |

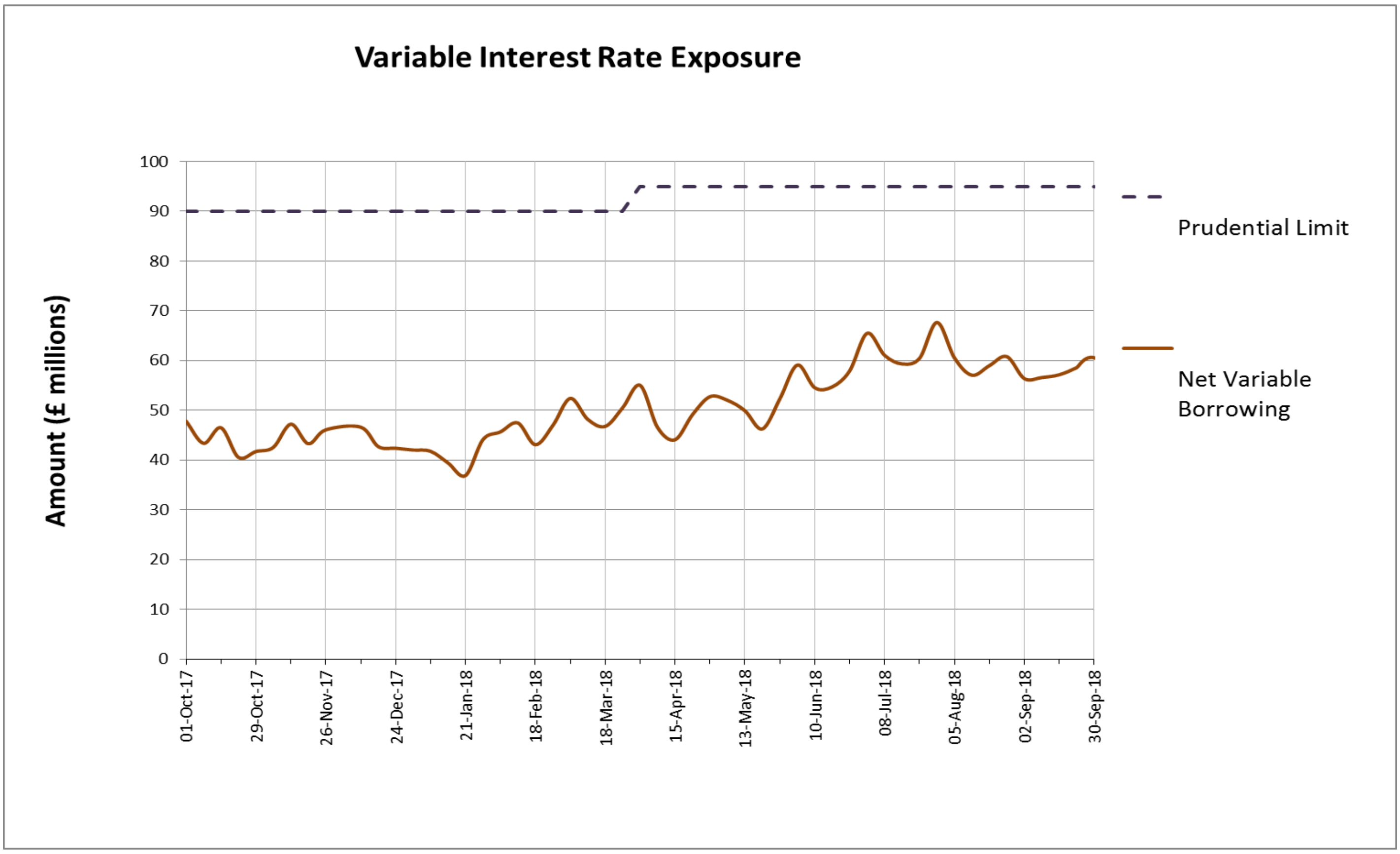
| Actual maturity structure to date | | |
|---|---|---|
| **Period (Years)** | **£M** | **%** |
| <1 | 72.9 | 37.6% |
| 1-2 | 2.3 | 1.2% |
| 2-5 | 3.7 | 1.9% |
| 5-10 | 20.2 | 10.4% |
| >10 | 95.0 | 48.9% |
| **Total** | **194.1** | **100%** |

| | | | | |
|---|---|---|---|---|
| | 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**





**GLOSSARY OF TERMS**

**Investment Rates**

The interest rates for durations of less than a year are represented by LIBID (London Interbank Bid Rate), a reference rate measuring levels at which major banks are prepared to borrow from one another. This is a potential benchmark for the return on the Council's investments, though the rates actually available are constrained by the Council's investment criteria and largely short term investment horizon, designed to ensure cash is available when required.

**Borrowing Rates**

To indicate the potential costs of borrowing to fund the Council's capital programme, the reference point is Public Works Loans Board (PWLB) borrowing rates. The benchmark used is for "Certainty Rate" borrowing of "Maturity" Loans (loans of fixed lump sums, at fixed rates, over periods from 1 to 50 years).
The PWLB is the statutory body which lends to public bodies from Government resources – the Government has declared that it will be abolished at some point in the future, but that the facility for lending at good value will be continued - no date has been proposed for the change.

**PWLB Loans** - Fixed rate loans are repayable by one of three methods:
(a) **Maturity**: half-yearly payments of interest only, with a single repayment of principal at the end of the term.
(b) **Annuity**: fixed half-yearly payments to include principal and interest or
(c) **EIP (Equal Instalments of Principal)**: equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

**Certainty Rates** - a discount - currently 0.20% - is available on new PWLB borrowing to local authorities completing an information request on borrowing intentions to Central Government

Current PWLB rates have no impact so long as no new longer term borrowing is taken, as all the Council's existing long term debt is at fixed rates.

**LOBO** - LOBO stands for Lender Option, Borrower Option. It means that the lender can increase the interest rate, which gives the borrower the option to repay the loan in full without penalty fees. Public bodies used to be only able to borrow money through government Public Works Loan Board (PWLB) loans, however borrowing from banks in the form of LOBOs was permitted from the early 2000s. LOBOs were made available with low rates (cheaper than then available PWLB rates) so they appeared to be an attractive alternative.

LOBOs have provoked criticism because of high initial profits to the lender from day one, and high subsequent interest rates. It is difficult to exit LOBO loans early unless the lender is in agreement, so they are less flexible, and there is a risk that if/when they are "called", the borrower may find itself having to refinance debt at high rates.
This Council always limited the scale of LOBO borrowing taken, so that it formed part of an overall balanced debt portfolio, while bringing the advantage of initial lower rates.

**PFI** - The private finance initiative is a way of creating "public–private partnerships" (PPPs) by funding public infrastructure projects with private capital.

**BSF -** Building Schools for the Future (BSF) was the name given to Central Government's investment programme in secondary school buildings in England in the 2000s. In Blackburn with Darwen, the schools funded through this scheme are Witton Park High School, Blackburn Central High School and Pleckgate High School.

**Prudential Indicators**

Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions and to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the indicators also deal with treasury issues, in particular the absolute level of debt being taken on (through the Authorised and Operational Borrowing Limits).

It should be noted that a "breach" of a prudential indicator is not necessarily a problem for the Council. Some indicators are more crucial that others, particularly in terms of their impact. If we spend more on the capital programme in total, that is not necessarily a problem if it has no adverse revenue consequences, for instance. Similarly, if we breach the indicator relating to variable interest rate exposure, this can just point to the balance of different types of debt taken up (between at fixed or variable interest rates) being significantly different from that anticipated when the indictor was set.

On the other hand, the Council's ability to borrow from the PWLB is constrained by needing to remain within the Authorised Borrowing Limit the Council has set for itself. If it became necessary to re-shape the Council's overall capital spending and borrowing strategy to the extent that the original Authorised Borrowing Limits were at risk of being breached, it would be necessary to obtain authority from full Council to change the borrowing limits.

**Money market fund** – type of fund investing in a diversified portfolio of short term, high quality debt instruments - provides benefit of pooled investment - assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns - such funds “ring-fenced”, kept fully separate from the remainder of funds managed by the investment house running the fund.

Council only uses highly rated funds - **policy** is to limit to those with long-term credit ratings no lower than A-, but current **practice** is to only use AAA rated with daily access (like instant access bank accounts)

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| **REPORT to :** | Audit and Governance Committee |
| **LEAD OFFICER:** | Director of Finance And Customer Services |
| **DATE:** | 16th October 2018 |

**WARD/S AFFECTED:** All

**Treasury Management Mid-Year Strategy Review for 2018/19**

## 1. PURPOSE

1.1 To update Members with regard to the Treasury Management position to date and proposed Strategy for the remainder of 2018/19.

## 2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee

(a) notes the Treasury Management position for the year to date, and the proposed Strategy for the remainder of the year, and

(b) approves that there be no changes to the existing Treasury and Prudential Indicators for 2018/19, as set at Finance Council (26th February 2018).

## 3. BACKGROUND

3.1 In February 2018 the Council agreed a Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy for 2018/19. It is necessary to review and consider updating the Strategy, if required.

3.2 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter.

In England MHCLG published its revised Investment Guidance which came into effect from April 2018.

The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018/19 for approval by full Council.

## 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. STRATEGY REVIEW 2018/19

## 5.1 Original Strategy for 2018/19

5.1.1 The Treasury Management Strategy for 2018/19 was approved by Council on 26th February 2018.

5.1.2 The broad strategy set at the start of 2018/19 continued the approach set across the last few years, recognising a widening, significant long-term under-borrowing against the Council's accumulated Capital Financing Requirement. There was uncertainty over the timing of still anticipated future increases in borrowing costs, but some interest rate increases were expected in the next few years. The availability of cheaper short-term cash still meant, however, that it was still likely that the Council would be able to limit long-term borrowing and generate net interest savings, as it had been doing for a number of years.

5.1.3 **The Original 2018/19 Investment Limits** – which were set by reference to amount, duration and credit rating - distinguished between Unsecured Deposits, which would be subject to greater risk of credit loss, and Secured Deposits, where there was less risk. The limits set were largely comparable to those applying in previous years. The medium term intention was that, should investment balances grow, a greater diversity of investments would be used, again with a view to managing risk. **Appendix 1** summarises the investment criteria set for 2018/19.

## 5.2 Economic Review 2018/19

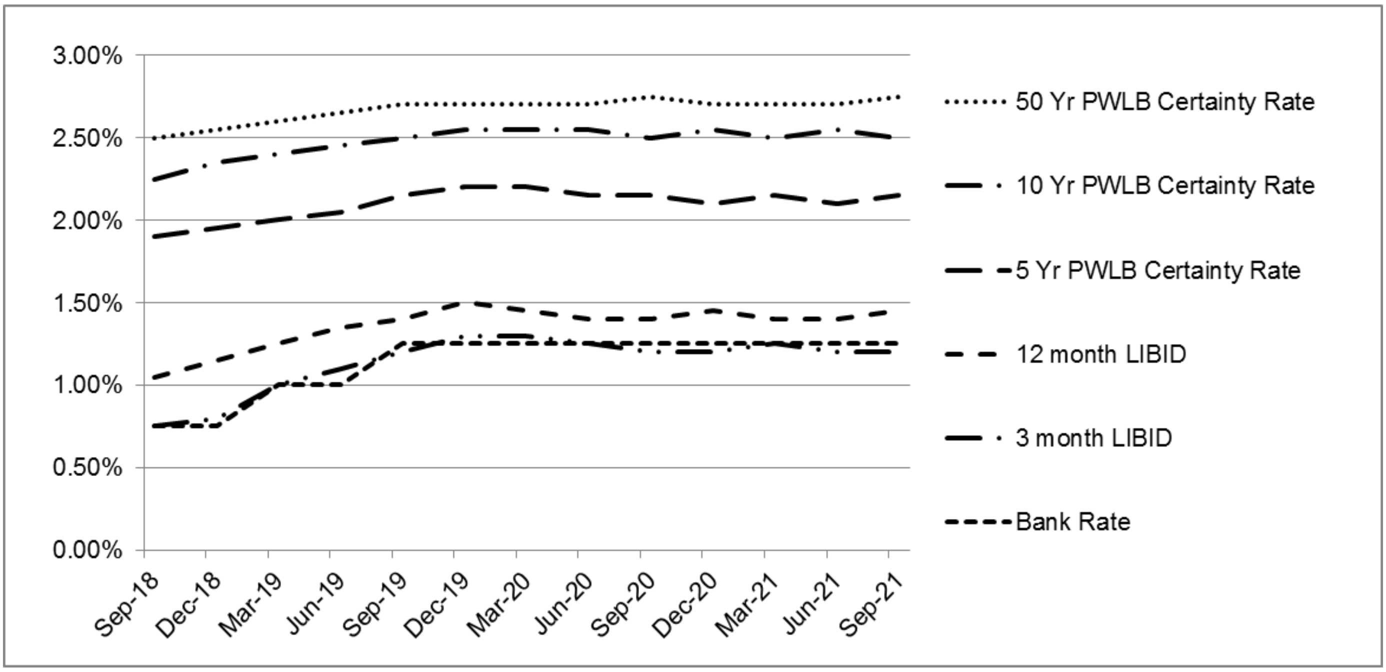
5.2.1 The UK economy's performance and interest rate expectations have been heavily shaped by the forthcoming British exit from the European Union. There has been a falling off in economic growth, though employment levels remain high, and some inflationary pressures have built up, linked in part to sterling exchange rate movements.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

5.2.2 Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

5.2.3 Market expectations are now for two further increases in Bank Rate over 2019, but, overall, interest rates are projected to remain at relatively low levels. The **Council's current projections for interest rates**, based on the latest central forecast from our advisors Arlingclose is summarised in the chart below.




## 5.3 Treasury Performance to Date

5.3.1 Thus far, cash balances have typically averaged between £20M and £35M. These levels have been supported by short term borrowing (at rates averaging around 0.75%). No long term borrowing has yet been taken, while short term borrowing has fluctuated, but currently stands at around the same level as the start of the year.

**Analysis of debt outstanding**

| | 31st March 2018 | | 30th Sept 2018 | |
|---|---|---|---|---|
| | £M | £M | £M | £M |
| TEMPORARY DEBT | | | | |
| Short Term borrowing | 85.0 | | 72.0 | |
| | | 85.0 | | 72.0 |
| LONGER TERM DEBT | | | | |
| Public Works Loans Board (PWLB) | 104.5 | | 103.8 | |
| Bonds | 20.5 | | 18.0 | |
| Other Market Debt | 0.3 | | 0.3 | |
| | | 125.3 | | 122.1 |
| Lancs County Council transferred debt | | 15.4 | | 15.0 |
| Recognition of Debt re PFI Arrangements | | 66.8 | | 66.0 |
| TOTAL DEBT | | 292.5 | | 275.1 |
| Less: Temporary Lending | | -33.7 | | -24.6 |
| | | 258.8 | | 250.5 |

5.3.2 Investments have continued to be made with a limited range of banks, building societies and Money Market Funds, along with other local authorities, and the Government's Debt Management Office (DMO), earning interest at low levels (averaging around 0.50% in the first half of the year). It is likely that investment returns will remain low in the second half of the year.

5.3.4 Increased net interest costs have already been reported through corporate monitoring, reflecting higher interest rates this year. This is because the higher costs of borrowing outweigh the benefit from increased returns on investments. Further increases in net interest costs are possible, depending upon interest rate movements and on the borrowing strategy adopted later in the year.

**5.4 Investment and Borrowing Strategy for the rest of the year**

5.4.1 **Investment**

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Though the Council's Investment Criteria allow investment in other organisations and structures, the priority given to maintaining liquidity, and limited opportunities for straightforward trading in Secured Deposits, have meant that simple, short dated options have been used. Therefore, actual investments have continued to be made in: fixed term deposits and instant access accounts with banks and building societies; instant access Money Market Funds; and fixed term deposits with local authorities and the UK Government's Debt Management Office.

It is possible, particularly if material levels of borrowing are taken in future, that at least some investments will be made in a wider range of high grade instruments, such as Treasury bills. The Council's professional treasury advisers, Arlingclose, consider that such widening of the range of the Council's investment instruments would be both appropriate and prudent.

It is proposed that there be no changes to the existing Investment Criteria (set out in Appendix 1).

5.4.2 **Borrowing**

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

It is proposed that the Borrowing Strategy also remain largely unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in long term interest rates.

However, while the cheapest short term option will be to continue to take a mix of short term borrowing, at rates of between 0.50% and 1.10%, it is possible that, having regard to the Council's borrowing costs in the medium to long term, consideration will be given to taking at least some longer term borrowing. This may generate short run cost pressures this year, and into next year.

**5.5 Risk Management**

5.5.1 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).

5.5.2 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 PWLB at long-term fixed rates of interest.

5.5.3 Another significant element of the Council's long term debt is £18M of loans from banks and other institutions. Of these, £13M worth are "lender's option, borrower's option" (LOBO) loans with initially fixed (and initially low) rates of interest. Under these instruments the Lender can, at certain times, exercise an option to increase the rate payable on the debt, and the Borrower has the choice then either to accept the proposed increase or repay the whole loan (which would mean, effectively, having to live with whatever the market conditions for interest rates were at that point).

This exposes the Council to some risk of rising long-term interest rates, but that is mitigated by the fact that £5M of this debt (forming a large part of the lowest interest rate elements) can only be "called" once in every five years. Recent estimates based on the current projected future interest rates, suggest LOBOs are unlikely to be called in the next 5 years (assuming no extraneous influences).

5.5.4 A combination of short duration investments and long duration debt exposes the Council to the risk of falling investment income during periods of low interest rates. However, the risk of low investment returns is viewed as of lower priority compared to the benefits of optimising the security and liquidity of investments, and the savings made on borrowing costs. Also, though the Council has no long term investments, it is hedged against the investment return risk by its short term debt.

5.5.5 The large and expanding part of the debt portfolio - of around £70M to £80M in short term loans from other local authorities - does raise interest rate risk issues. If the medium to long term cost of debt were to move sharply 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.

**5.6 Treasury and Prudential Indicators**

5.6.1 The originally approved Treasury and Prudential Limits and Indicators were set at cautious levels and can remain unchanged.

The Council has complied with the Limits and Indicators is has set, and expects to do so over the remainder of the year.

**5.7 Minimum Revenue Provision (MRP) Policy**

5.7.1 The Council's MRP is the minimum amount which must be charged to revenue each year as a provision for the repayment of debt. The Council, within regulatory guidance, sets its own policy to ensure that the MRP it makes each year is prudent. The charge includes elements relating to "historic debt", acquired before the Prudential Borrowing regime, together with elements relating to more recent "Prudential Borrowing debt".

5.7.2 In setting the 2018/19 MRP Policy, the Council reflected policy changes made in previous years which had generated significant savings. No further changes to MRP Policy are now recommended.

## 6. FINANCIAL IMPLICATIONS

The financial implications arising from the 2017/18 Treasury Outturn and latest position for 2018/19 have been incorporated into Corporate Budget Monitoring Reports.

## 7. LEGAL IMPLICATIONS

7.1 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.

7.2 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.

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## 8. POLICY IMPLICATIONS, RESOURCE IMPLICATIONS, CONSULTATIONS

None

## 9. 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:** | **0.01** |

| | |
|---|---|
| **CONTACT OFFICER:** | Ron Turvey - Deputy Finance Manager extn 5303<br>Louise Mattinson - Director of Finance and IT extn 5600 |
| **DATE:** | 4th October 2018 |
| **BACKGROUND PAPER:** | Treasury Management strategy for 2018/19 approved at Council 26th February 2018. |

| Approved Investment Counterparties | Specified Investments Cash limit | Specified Investments Time limit | Non-specified Investments Cash limit | Non-specified Investments Time Limit up to I year | Non-specified Investments Time Limit 1 year + |
|---|---|---|---|---|---|
| **Banks and Building Societies – Secured Deposits** | | | | | |
| long-term credit ratings no lower than AA (or equivalent) | £5M each | 364 days | £5M each | - | 6 years |
| long-term credit ratings no lower than AA- (or equivalent) | £4M each | 364 days | £4M each | - | 4 years |
| long-term credit ratings no lower than A- (or equivalent) | £3M each | 364 days | £3M each | - | 2 years |
| **Banks and Building Societies – Unsecured Deposits** | | | | | |
| long-term credit ratings no lower than AA (or equivalent) | £5M each | 9 months | £3M each | - | 3 years |
| long-term credit ratings no lower than AA- (or equivalent) | £4M each | 6 months | £2M each | - | 2 years |
| long-term credit ratings no lower than A- (or equivalent) | £3M each | 4 months | £2M each | - | 18 months |
| The Council's **current account banker** - provided long term credit rating no lower than BBB- (or equivalent) | - | - | £3M | next day | - |
| **Corporates** or **Registered Providers** with long-term credit ratings no lower than A- (or equivalent) | £3M each | 4 months | £2M each | - | 18 months |
| **Unrated institutions**, such as some building societies | - | - | £1M each | 4 months | - |
| **Company Shares** where no direct service benefit arising, for the prudent management of its financial affairs | - | - | £100,000 | n/a | |
| **Pooled funds** (incl. money market funds) | | | | | |
| long-term credit ratings no lower than A- (or equivalent) | £5M each | n/a | - | - | - |
| unrated or long-term credit ratings under A- (or equivalent) | - | - | £4M each | - | n/a |
| **UK Government** | no limit | 364 days | no limit | - | 50 years |
| **Other Government** with long-term-credit ratings no lower than A- (or equivalent) | £5M each | 364 days | £3M each | - | 5 years |
| **UK Local Authorities*** (irrespective of credit rating) | £5M each | 364 days | £3M each | - | 4 years |
| * as defined in the Local Government Act 2003 | | | | | |

The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million, to limit the potential loss in the case of any single counterparty failure.

(a) the combined **Secured and Unsecured Investments** made with any one counterparty will not exceed the cash limit for Secured Investments, and

(b) the combined value of the total of **Specified and Non-Specified Investments** with any one counterparty will not exceed the highest limit for any individual class of investment set out above

Investment in any bank that forms part of a group of banks under the same ownership will be subject to a Group Limit equal to the limit that would apply to the parent company.

**Specified Investments** are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The MHCLG Guidance defines Specified Investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,

- a UK local authority, parish council or community council, or
- a body or investment scheme of “high credit quality”.

**<u>High Credit Quality</u>**

This Council defines “high credit quality” organisations as those having a credit rating of A- or higher, if either domiciled in the UK ***or*** in foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds, “high credit quality” is defined as those having a credit rating of A- or higher.

**<u>Non-Specified Investments</u>**

Any investment not meeting the definition of a Specified Investment is classed as Non-Specified. They will only be made in the following categories

(a) shorter term investments in bodies and schemes with low or no credit ratings – these will be closely monitored by the Treasury Management Group (TMG), chaired by the Director of Finance and IT, and will follow advice given by the Council’s Treasury Management Advisers

(b) long-term investments, i.e. those that are due to mature in 12 months or longer from the date of the arrangement (in higher rated counterparties)

(c) treasury investments defined as capital expenditure by legislation, such as company shares, where there is a potential for a beneficial treasury impact.

The Council does not intend to make any investments in foreign currencies.

Overall limits also apply on Non-specified Investments, as shown the table below.

| **Non-Specified Investments - Overall Limits** | **Cash limit** |
|---|---|
| Total long-term investments | £7 M |
| Total investments without credit ratings or rated below A- | |
| Building Societies or Banks (subject to additional overview) | £7 M |
| Council’s current account bank (in addition to the above) | £3 M |
| Pooled Funds and Money Market Funds | £15 M |
| Total non-specified investments | £30 M |

| | |
|---|---|
| **TO:** | Audit & Governance Committee |
| **FROM:** | Head of Audit & Assurance |
| **DATE:** | 16 October 2018 |

**PORTFOLIOS AFFECTED:** All

**WARDS AFFECTED:** All

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

## 1. PURPOSE

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

## 2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 September 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 September 2018:**

**<u>Counter Fraud Activity</u>**

**National Fraud Initiative**

Work is now complete on the 2017 National Fraud Initiative. The results of this exercise have previously been reported to Committee.

The Council also received reports from the Cabinet Office on 23 February 2018 which identified 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 investigation.

The next National Fraud Initiative exercise (NFI 2018/19) will result in data matches being issued to the Council for further review and follow up from 31 January 2019. Audit and Assurance staff are currently co-ordinating the provision of various data sets to the Cabinet Office for this exercise.

**Other investigations**

During the period Audit & Assurance staff also carried out an investigation into an alleged fraud following a complaint made by a member of public. We found no evidence of fraud by Council staff. However a number of recommendations were made to compliment the process in place and strengthen the controls for the area concerned.

Audit & Assurance has also reviewed the petty cash procedures at two locations following the report of missing money. Whilst fraud/theft was suspected, insufficient evidence was available to confirm that this was the case. In one case we identified several issues concerning non-compliance with the Council's Standing Financial Instructions. 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.

**<u>Internal Audit</u>**

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 | |
| Payroll – Core System | Adequate | Adequate | 3 |
| Income Collection & Management | Adequate | Substantial | 2 |
| Kings Georges Hall (KGH) Events Management | Adequate | Adequate | 7 |
| Main Accounting | Substantial | Substantial | 1 |
| Budget Setting and | Substantial | Substantial | 1 |

| | | | |
|---|---|---|---|
| Control | | | |
| Off Payroll Engagement (IR35) | Limited | Limited | 8 |
| Procurement and Contract Management Arrangements | Substantial | Adequate | 4 |
| Project Management/Capital Schemes Management | Adequate | Adequate | 4 |

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

**Off Payroll Engagement (IR35):** The audit objective was to assess the adequacy and effectiveness of the Council's arrangements to ensure Departments were compliant with the requirements of IR35 to identify and assess self-employed workers, and to make appropriate deductions where applicable. We could only provide **limited assurance** for the control environment and **limited assurance** for compliance with the controls for this area. A number of points were identified for management attention. These included the following:

- There was no clear ownership to ensure compliance with IR35 regulations. The onus was placed on the employing manager to identify and assess contractors to ensure that, where applicable, their invoices were paid correctly; and
- It was difficult to clearly identify contractors and it was unclear if all contractors had been assessed against the IR35 regulations using the HMRC toolkit.

During the period Audit & Assurance staff also completed appropriate work to enable the Local Authority Bus Subsidy Ring-Fenced (Revenue) and the Local Transport Settlement 2016/17 Grant Declarations to be signed by the Chief Executive and Head of Audit & Assurance in respect of the year ended 31 March 2018. The results of the work confirmed that, in all significant respects, the conditions attached to the grant determinations had been complied with.

**Current internal audit reviews**

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

- Partnership Arrangements;
- Highways;
- Overtime/Additional Hours;
- Adults Off System Commissioning Arrangements; and
- Social Determinants of Health/Public Health Internal Spend.

**<u>Internal Audit Performance</u>**

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 | Q2 2018/19 | Q1 2018/19 |
|---|---|---|---|
| 1. Delivery of Priority 1 Audits (Annual) | 100% | N/A | N/A |

| Performance Measure | Target | Q2 2018/19 | Q1 2018/19 |
|---|---|---|---|
| 2. Planned Audits Completed Within Budget | 90% | **63%** | 75% |
| 3. Final Reports Issued Within Deadline | 90% | **88**% | 88% |
| 4. Follow Ups Undertaken Within Deadline | 90% | 100% | 100% |
| 5. Recommendations Implemented | 90% | 100% | 88% |
| 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:

<u>2. Planned Assignments Completed Within Budget</u>
Three of the eight audits (63%), completed in the period were over budget. The Corporate Procurement and Off Payroll Engagement reviews required additional time to complete due to the cross cutting nature of the work and the need to liaise with various teams and staff within the Council to finalise the findings and management responses. The KGH Events Management review was completed by a second member staff. Extra time was required to complete the testing and update the findings prior to finalising the report.

<u>3. Final Reports Issued within Deadline:</u>
The final report for Off Payroll Engagement was delayed due to staff absence.

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

| | |
|---|---|
| **TO:** | **Audit & Governance Committee** |
| **FROM:** | **Head of Audit & Assurance** |
| **DATE:** | **16 October 2018** |

**PORTFOLIOS AFFECTED:** All

**WARDS AFFECTED:** All

**TITLE OF REPORT: Risk Management – 2018/19 Quarter 1 Review**

## 1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 April 2018 to 30 June 2018.

## 2. RECOMMENDATIONS

The Committee is asked to:

- Discuss, review and challenge the progress made on the Corporate Risk Register as at the end of Quarter 1 2018/19;
- Note the risk management activity that has occurred during the period; and
- Consider the selection of a Corporate Risk for the Committee to undertake a review of its assessment, control and monitoring at its next meeting.

## 3. BACKGROUND

The Council recognises that risk management is not simply a compliance issue, but rather it is a process to help ensure the successful delivery of the corporate objectives. Effective risk management arrangements should be embedded in the Council's culture and decision making processes as well as being an inherent part of the operational and financial management arrangements operating within the Council. Risk management helps to demonstrate openness, integrity and accountability in all of the Council's activities.

## 4. RATIONALE

The Audit & Governance Committee terms of reference require it to review progress on risk management at least annually and to promote risk management throughout the Council. The Corporate Risk Management Strategy & Framework requires that the Audit & Governance Committee will receive regular reports setting out progress against corporate risk management action plans. This report satisfies both these requirements.

## 5. KEY ISSUES AND RISKS

The Corporate Risk Register currently contains a total of 14 open risks, a reduction of one from the number noted in the 2017/18 Annual Risk Management Report presented to this Committee on 24 July 2018. Corporate risk 5, the risk that that governance and decision making arrangements fail, has been closed. The controls relating to this area have been assessed as good and, as the new Constitution and the related governance arrangements have been confirmed as in place, the risk has been accepted and closed.

A summary of the corporate risk details is attached at Appendix 1 of this report. The report identifies any changes in the residual risk score from the previous quarter to enable movements to be tracked. The only change to note is the increase in the residual risk score relating to Risk 11, failure to improve the education and skills for our young people. This is as a result of the likelihood of this risk materialising increasing. The Head of Service responsible for this area retired at the end of August and the arrangements for her replacement need to be determined. In addition the Service Lead post is to be deleted. This leaves a significant gap and associated risks, which will need to be considered.

Corporate Risk 14, that of a high profile serious/critical safeguarding incident/case occurring that is known to Council services, remains the top corporate risk, as noted at the last year-end in the 2017/18 Annual Report.

As part of the Council's Risk Management process we review and monitor the Corporate Risks on a regular basis to ensure that we have appropriate, properly assessed corporate risks identified going forward. Management Board review the details as part of the Management Accountability Framework reporting arrangements, as well as the on-going review and update of the risks by the designated risk owners and key contacts

The Road Risk Management Group continues to meet regularly to consider the risk management arrangements in place for the Council's motor fleet and drivers and staff use of private vehicles for Council business. The Group also reviews management reports to monitor trends in fleet driving behaviour and insurance claims to identify training needs. We will also continue to make use the risk management support that is available from Zurich Municipal as part of the current long term insurance agreement during the year to provide additional support to managers and senior officers regarding specific risk management arrangements and training.

## 6. POLICY IMPLICATIONS

There are no policy implications arising from this report.

## 7. FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

## 8. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

## 9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this report.

## 10. EQUALITY AND HEALTH IMPLICATION

There are no equality or health implications arising from this report.

## 11. CONSULTATIONS

The Corporate Risk Register has been reviewed and updated by the Corporate Risk & Resilience Forum and agreed by Management Board.

| | |
|---|---|
| Contact Officer: | Colin Ferguson Head of Audit & Assurance – Ext: 5326 |
| Date: | 3 October 2018 |
| Background Papers: | Corporate Risk Management Strategy 2015/2020<br>2017/18 Annual Risk Management Report (including Quarter 4 Review) |

BLACKBURN with DARWEN BOROUGH COUNCIL

Department: Corporate Risk Register
Service:
Quarter and Year: Quarter 1 - 2018/19
Date: 30-Jun-18
Date of last review: 31-Mar-18
Date of next review: 30-Sep-18

| Risk No. | Risk Description | Date Raised | Strength of Existing Controls | Inherent | | | Residual | | | Target | | | Risk Owner(s) | Key Contact(s) | Risk Status | Last Risk Review Date | Previous Residual | | | Change in Score |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | L | I | Risk Rating | L | I | Risk Rating | L | I | Risk Rating | | | | | L | I | Risk Rating | |
| 1 | Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Governement Commission taking control of the authority's finances | 26-Jan-15 | Fair | 5 | 5 | HIGH | 2 | 3 | LOW | 1 | 2 | LOW | Louise Mattinson | Simon Ross, Zoe Evans | Open | 15-May-18 | 2 | 3 | LOW | - |
| 2 | Failure of the assets or failure to manage these in a proactive and co-ordinated way (Assets include Buildings, Infrastructure) | 25-May-11 | Fair | 3 | 5 | HIGH | 2 | 4 | MEDIUM | 2 | 2 | LOW | Denise Park | Lee Kinder, Stuart Scott | Open | 28-Feb-18 | 2 | 4 | MEDIUM | - |
| 3 | IT Infrastructure (Resilience) - OTH | 20-Aug-13 | Good | 4 | 3 | MEDIUM | 3 | 3 | MEDIUM | 3 | 1 | LOW | Louise Mattinson | Shane Agnew | Closed | 15-Nov-16 | 3 | 3 | MEDIUM | - |
| 4 | The Council is not able effectively influence and shape new partnership structures to respond to changes occurring in the public sector. | 07-Feb-12 | Good | 3 | 3 | MEDIUM | 2 | 3 | LOW | 2 | 2 | LOW | Denise Park | Alison Schmid / Heather Taylor | Open | 06-Sep-18 | 2 | 3 | LOW | - |
| 5 | There is a risk that governance and decision making arrangements fail | 25-May-11 | Good | 2 | 4 | MEDIUM | 2 | 2 | LOW | 1 | 1 | LOW | Harry Catherall | Denise Park, David Fairclough. | Closed | 28-Sep-17 | 2 | 2 | LOW | - |
| 6 | Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget. | 17-Oct-16 | Good | 4 | 4 | HIGH | 1 | 3 | LOW | 1 | 2 | LOW | Management Board | David Fairclough | Open | 28-Sep-17 | 1 | 3 | LOW | - |
| 7 | Ensure BwD delivers its statutory Civil Contingencies function- Emergency Preparedness, Planning, Response, Recovery and Business Continuity Promotion (to small & med sized businesses) to protect the Community/enhance the Council's resilience, mitigate reputational and financial damage. Corporate Objectives at risk - 1,2,5,6. | 25-May-11 | Good | 4 | 5 | HIGH | 1 | 5 | LOW | 1 | 5 | LOW | Harry Catherall | David Fairclough, Rachel Hutchinson, Sarah Riley | Open | 23-Aug-18 | 1 | 5 | LOW | - |
| 7b | Ensure BwD delivers its statutory Civil Contingencies function by ensuring the Council has Business Continuity Management arrangements in place,planning, training testing and validating and execising procedures and plans. This will enhance the Council's resilience, protect the community,and mitigate financial and reputational damage. Corporate Objectives 1,2,5,6 link | 22-Sep-16 | Good | 3 | 4 | MEDIUM | 2 | 4 | MEDIUM | 1 | 3 | LOW | Harry Catherall | David Fairclough, Paul Fleming, Rachel Hutchinson, Sarah Riley | Open | 23-Aug-18 | 2 | 4 | MEDIUM | - |
| 8 | Failure to contribute effectively to economic growth within Blackburn with Darwen | 25-May-11 | Good | 3 | 5 | HIGH | 3 | 4 | MEDIUM | 2 | 2 | LOW | Denise Park | Brian Bailey | Closed | 29-Nov-16 | 3 | 4 | MEDIUM | - |
| 9 | Failure to improve health outcomes within Blackburn with Darwen could result in the communities' health and wellbeing position or conditions deteriorating. | 25-May-11 | Good | 3 | 4 | MEDIUM | 3 | 4 | MEDIUM | 1 | 3 | LOW | Dominic Harrison | Gifford Kerr | Open | 18-Jul-18 | 3 | 4 | MEDIUM | - |
| 10 | Due to the breakdown of community relations or a deterioration of community cohesipn, greater risk of hate crime, extremism, radicalisation or polarisation of communities. | 07-Feb-12 | Good | 4 | 5 | HIGH | 2 | 3 | LOW | 1 | 3 | LOW | Sayyed Osman | Imran Akuji/Mark Aspin | Open | 05-Jun-17 | 2 | 3 | LOW | - |
| 11 | Failure to improve the education and skills for our young people | 20-Aug-13 | Good | 4 | 4 | HIGH | 3 | 3 | MEDIUM | 2 | 3 | LOW | Linda Clegg | Jessica Byrne | Open | 20-Jul-18 | 2 | 3 | LOW | Up |
| 12 | The Council does not effectively capitalise on potential opportunities to improve housing quality or build more houses in the Borough to maximise the income available from the new homes bonus and increased council tax | 20-Aug-13 | Good | 4 | 4 | HIGH | 3 | 3 | MEDIUM | 2 | 2 | LOW | Brian Bailey | David Proctor | Closed | 29-Nov-16 | 3 | 3 | MEDIUM | - |
| 13 | Failure to prevent data loss and privacy incidents (Information Governance) leading to financial/Data loss, disruption or damage to the reputation of the Council | 26-Sep-14 | Good | 5 | 4 | HIGH | 4 | 2 | MEDIUM | 3 | 2 | LOW | Paul Fleming | Sarah Critchley | Open | 10-Jul-18 | 4 | 2 | MEDIUM | - |
| 14 | High profile serious/critical safeguarding incident/case that is known to Council services. | 20-Aug-13 | Good | 4 | 5 | HIGH | 3 | 5 | HIGH | 3 | 5 | HIGH | Sayyed Osman / Linda Clegg (DCS) | Paul Lee | Open | 10-Jul-18 | 3 | 5 | HIGH | - |
| 15 | Failure, at a corporate level, to comply with Health & Safety legislation and provide both a safe working environment for employees and the provision of a safe environment for service users. | 19-Mar-15 | Fair | 4 | 4 | HIGH | 2 | 3 | LOW | 2 | 3 | LOW | David Fairclough | Fiona Eastwood | Open | 14-Sep-17 | 2 | 3 | LOW | - |
| 16 | Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services. | 01-Dec-15 | Good | 5 | 5 | HIGH | 2 | 3 | LOW | 2 | 2 | LOW | Denise Park | Louise Mattinson | Closed | 12-Jan-16 | 2 | 3 | LOW | - |
| 17 | Cyber Risk - Risk of financial/Data loss, disruption or damage to the reputation of an organisation from compromise of its IT systems. | 15-Mar-16 | Good | 5 | 5 | HIGH | 3 | 4 | MEDIUM | 2 | 4 | MEDIUM | Paul Fleming | Steve Rowe | Open | 09-Jul-18 | 3 | 4 | MEDIUM | - |
| 18 | Insufficient budget for service delivery if MTFS income targets from the Growth Agenda are not met. | 29-Nov-16 | Good | 4 | 5 | HIGH | 3 | 4 | MEDIUM | 3 | 4 | MEDIUM | Denise Park, | Simon Jones | Open | 25-Apr-18 | 3 | 4 | MEDIUM | - |