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Audit & Governance Committee

Tuesday, 12th January, 2021
6.30 pm
Virtual Microsoft Teams Meeting

Join Meeting Here

AGENDA

1. Welcome and Apologies

To welcome those present to the meeting and to receive any apologies for absence.

2. Declaration of Interest

A form is attached for completion by Members declaring an interest in items on the agenda.

Declarations of Interest **4**

3. Minutes of the Meeting held on 26th November 2020

To approve as a correct record the minutes of the meetings held on 26th November 2020.

Minutes of the Meeting held on 26th Novmeber 2020 **5 - 8**

4. Statement of Accounts Highlights

The Director of Finance and her team will deliver a presentation on the Statement of Accounts to outline the main features, highlighting key facts and figures for consideration by the Committee.

Accounts Overview 2019-20 **9 - 26**
Accounts Overview 2019-20 - SOA Extracts

5. External Audit: Audit Findings Report 2019/20

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

External Audit: Audit Findings Report 2019/20 **27 - 54**

6. Statement of Accounts 2019/20

The Director of Finance will submit the Statement of Accounts for approval.

Approval of Accounts 2019-20 **55 - 178**
Statement of Accounts 2019-20

7. Treasury Management Report - September to November 2020

The Head of Financial Services will provide the Committee with a report on Treasury Management activity.

Treasury Managment Report **179 - 192**
Appendix 1 Weekly Balances
Appendix 2 Investment Detail
Appendix 3 Pru Indicators
Appendix 4 Pru Graphs
Appendix 5 Glossary of Treasury Management Terms
Appendix 6 - Draft Treasury Management Strategy 2021-22

8. Audit & Assurance - Progress & Outcomes to November 2020

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

Progress Report November 2020 **193 - 196**

9. Annual Governance Statement - Progress on 2019/20 Actions and Plan for 2020/21

The Head of Audit & Assurance will provide the Committee with a report on the progress on actions of the issues identified in the 2019/20 Annual Governance Statement and the process for producing the 2020/21 Statement.

Annual Governance Statement **197 - 205**
Annual Governance Statement Appendix 1

10. Risk Management - 2020/21 Quarter 2 Review

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

Date Published: Monday, 04 January 2021
Denise Park, Chief Executive

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:

DATE:

AGENDA ITEM NO.**:**

DESCRIPTION (BRIEF):

NATURE OF INTEREST:

DISCLOSABLE PECUNIARY/OTHER (delete as appropriate)

SIGNED :

PRINT NAME:

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

AUDIT & GOVERNANCE COMMITTEE
Thursday, 26 November 2020

PRESENT – *Councillors Ron Whittle (Chair), Maureen Bateson, Mahfooz Hussain and Andy Kay*

OFFICERS – *Louise Mattinson (Director of Finance), Colin Ferguson (Head of Service Audit and Assurance), Firoza Hafeji (Governance Officer), Phil Llewellyn (Corporate and Democratic Lead) and John Farrar (Grant Thornton)*

ALSO PRESENT – *Councillor Vicky McGurk, Executive Member for Finance and Governance.*

RESOLUTIONS

16 Welcome and Apologies

The Chair welcomed all present to the meeting and read the notice that outlined the arrangements relating to the virtual meeting.

17 Minutes of the last meetings held on 14th January 2020 and 29th July 2020

The Minutes of the meetings held on 14th January 2020 and 29th July 2020 were moved as a correct record.

RESOLVED – That the Minutes of the meetings held on 14th January 2020 and 29th July 2020 be agreed as a correct record.

18 Declarations of Interest

There were no declarations of interest received.

19 External Audit: Progress Report 2019/20

John Farrar gave a verbal update on the progress of Grant Thornton in delivering their responsibilities as External Auditors, and highlighted the emerging issues and developments nationally.

Members were informed that due to Covid-19 ongoing sickness absence the Councils external audit had been further delayed to October – November 2020. The External Audit Plan 2019/20 was shared with Committee in previous meetings and no further issues identified.

The audit was progressing well and no matters arising to date. Weekly progress update calls were being held between the external auditors and the Council Finance team.

The External Audit finding report would be brought to the Audit & Governance Committee meeting to be held on 12th January 2021.

RESOLVED –

- That the updates and information presented be noted.
- That the External Audit Finding Report be brought to the next Audit & Governance Committee meeting to be held on 12th January 2021.

20 Treasury Management Report - June to August 2020

The Director of Finance & Customer Services presented the Committee with a report on Treasury Management activity including a Mid-year Strategy Review for 2020/21. The report summarised the interest rate environment for the period and borrowing and lending transactions undertaken, together with the Council's overall debt position, and the position against Treasury and Prudential Indicators established by the Council.

Members noted the weekly movement in the totals available for investment, both actually to date and projections for the rest of the year. These balances had fluctuated significantly across the period, ranging between £40M and £60M. Investment balances were unusually high during this period, because of funds received from central government. Funds received from central government included both grants received in advance of their usual payment dates and additional funds in respect of extra costs and the distribution of grants to small businesses in relation to the response to the Covid-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £10M and £20M.

Louise Mattinson highlighted that at 31st August, the Council had approximately £40.4M invested, compared to £45.7M at the start of the period. The breakdown of the closing investment balance was shared with the Committee.

The financial implications arising from the Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

The budgets were monitored monthly and vital information collated which highlighted the additional cost received and the total loss of income due to Covid-19. Some of the loss of income due to Covid-19 was eligible for compensation from MHCLG.

RESOLVED – That the Committee noted the Treasury Management Report – 2020/21.

21 Audit & Assurance - Progress & Outcomes to September 2020

The Head of Audit & Assurance reported on the achievements and progress made by Audit & Assurance in the period from 1st July 2020 to 30th September 2020.

In terms of Corporate Governance and Risk there were nine "red" priority areas/issues across departments, by key themes, which had been identified in the summary of Director Exception/Dashboard Report and Assurance Statements for the half-year, as at 30th September 2020.

This included eight “red” priorities that remained as areas of concern from 31st March 2020 and one area had been upgraded. There were six areas of concern previously identified as “red” that had now been downgraded to “amber” or “green” in the period.

The report also highlighted Counter Fraud Activity and Internal Audits recently undertaken.

In response to questions raised by the Committee Colin Ferguson agreed to get further information from the relevant departments on the Sickness Absence theme, to identify why the priority had moved from “red” to “amber” during the Covid-19 pandemic.

RESOLVED – That the report be noted.

22 Risk Management - 2020/21 Quarter 1 Review

Colin Ferguson summarised the Risk Management report for quarter 1 in the period from 1st April 2020 to 30th June 2020.

The Committee were asked to:

- Discuss, review and challenge the progress made on the Corporate Risk Register as at the end of Quarter 1 2020/21;
- Note the risk management activity that had occurred during the period; and
- Consider the selection of Corporate Risk for the Committee to undertake a review of its assessment, control and monitoring at its next meeting.

The Corporate Risk Register contained 15 open risks at 30th June 2020.

A summary of the corporate risk details was shared with the Committee which identified that the residual risk score relating to risk 14, Safeguarding, had been increased due to the impact that Covid-19 has had on the work that Children’s Social Care carried out with the wider community.

The top three corporate risks as at 30th June 2020 were shared with Members of the Committee.

Officers have continued to liaise with colleagues across the Council to identify areas to make use of the risk management support that was available from Zurich Municipal as part of the current long term insurance agreement. Since May 2020 Zurich have provided a series of monthly webinars on a wide range of topics which have included safeguarding during lockdown, a look at the risk landscape for public services now and in the future, the impact of Covid-19 on mental wellness, Adult Social Care post Covid-19 and emerging risk management considerations for highways.

Zurich published a wider range of guidance notes during the period which covered topics such as risk control measures for the temporary closure of premises, managing additional homeworking exposure, working from home display screen equipment (DSE) risk assessments, the cyber dimension of the corona virus, planning for a return to the workplace and guidance for reopening schools.

The Committee then considered a Corporate Risk to look at the next meeting, and agreed that No.21 which related to the business continuity arrangements in place to enable the Council to recover its critical functions, core services and income generating functions during the transition and recovery phase of the Covid-19 outbreak be reviewed.

RESOLVED –

- That the report be noted
- That Corporate Risk No.21 be reviewed at the next meeting

Signed: …….

Date: …….

Chair of the meeting
at which the minutes were confirmed

Blackburn with Darwen Council Statement of Accounts 2019/20

AUDIT & GOVERNANCE COMMITTEE
TUESDAY 12TH JANUARY 2021

Why prepare a statement of accounts?

- A legal requirement
- Accountability - do the accounts show a true and fair view of the Councils current position?
- Did the Council end the year with more or less money in reserves than it started with?
- What was the cost of providing Council services during the year and how were they funded?

Core Financial Statements and Explanatory Notes	
Comprehensive Income and Expenditure Statement	29
Movement in Reserves Statement	31
Balance Sheet	32
Expenditure and Funding Analysis	34
Reserves	68

Comprehensive Income and Expenditure Statement (Page 29)

- Reports on how the Council performed during the year and whether its operations resulted in a surplus or a deficit
- Shows the accounting position of the Council based on accounting standards, which is different from the revenue outturn position, but it allows comparisons between councils and with other organisations
- As well as the operating deficit of £40.325 million, it includes other amounts which relate to re-assessments of the values of assets:
  - Increases of £15.474 million in the valuation of the Council's non-current assets
  - An increase of £42.461 million in the net assets which underpin the Council's pension commitments

Expenditure and Funding Analysis

Note 1 page 34

The Expenditure and Funding Analysis shows how the net expenditure that is chargeable to taxation ***i.e. revenue outturn reported on the basis of statutorily defined charges to the General Fund***, reconciles to the Comprehensive Income and Expenditure Statement, which is prepared in accordance with generally accepted accounting practices.

	2019/20 (Extract)		
	Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Adults & Prevention Services	49,523	2,604	52,127
Public Health & Wellbeing	1,829	(353)	1,476
Children, young people & education	34,615	12,589	47,204

Expenditure and Funding Analysis – Note 1, page 34

- The first column of the Expenditure and Funding Analysis (EFA) presents the same information as the Revenue Outturn table on page 12 of the Narrative Report / the revenue outturn report to Executive Board in June 2020
- Column 2 summarises the accounting adjustments required – expanded on in pages 35-36 and Note 3 (page 38)
- Column 3 matches the Comprehensive income and expenditure statement i.e. accounting practice

Note 1 cont. - Items we make accounting adjustments for

- **Capital adjustments** (£17.671m):
  - various technical accounting adjustments which reflect the impact of capital expenditure and financing on the CIES but do not impact on the Council's general fund balance
- **Pension costs** (£26.370m)
  - the difference between the actual amount charged for pension liabilities arising during the year and the actuary's estimate of the underlying cost
- **Other adjustments** (-£0.838m), including:
  - the requirement to estimate the value of staff entitlements for outstanding leave and flexitime at the end of the financial year
  - excluding internal recharges / presentational changes

Balance Sheet (Page 32)

- This shows the value as at 31 March of the assets and liabilities recognised by the Council.
- The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council, which are reported in two categories – usable and unusable reserves (described further in the following slides)

	Balance Sheet	
31 March 2018 £000		31 March 2019 £000
462,837	Long term assets	465,146
52,732	Current assets	86,497
(101,113)	Current liabilities	(133,306)
(482,916)	Long term liabilities	(469,187)
(68,460)	Net assets	(50,850)
(40,105)	Usable reserves	(41,647)
108,565	Unusable reserves	92,497
68,460	Total reserves	50,850

Movement in Reserves Statement (Page 31)

- Analyses the changes in each reserve from year to year (further detail in Note 3 – page 38)
- Reserves represent the Council's net worth and show its spending power - they are are analysed into two categories: usable and unusable
- Usable Reserves (Note 30 – page 68):
  - Result from the Council's activities
  - Can be spent in the future
  - Include:
    - General Fund balance, which includes both unallocated and earmarked reserves
    - Capital Receipts Reserve - amounts from the sale of assets, which can (with some limited exceptions) only be used to finance future capital expenditure
    - Capital Grants Unapplied - unspent amounts in respect of money received to support capital projects. Typically received for specific projects and so not available for wider use.

Unusable Reserves – Note 30 (Pages 69-72)

Most significant are:

- Revaluation Reserve - holds gains arising from increases in the value of the Council's property, plant and equipment assets. Gains only become available for use (realised) if the assets are sold.
- Capital Adjustment Account (CAA) Page 70
  - Holds all the transactions in respect of financing actual capital expenditure and the accounting adjustments for capital and non-current assets
- Pensions Reserve. The difference between the Council's long-term commitment to pensions payments and the current value of the assets available to cover them. Based on information provided by the Council's actuary.

Any questions?

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – Page 29

2018/19 (restated)				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
73,830	(21,712)	52,118	Adult and prevention services	76,989	(24,862)	52,127
21,508	(20,815)	693	Public health and wellbeing	22,265	(20,789)	1,476
48,931	(5,290)	43,641	Children, young people and education	52,187	(4,983)	47,204
17,732	(6,551)	11,181	Environmental services	17,802	(6,636)	11,166
21,976	(7,810)	14,166	Growth and development	22,156	(7,648)	14,508
8,210	(678)	7,532	Digital and customer services	8,424	(828)	7,596
67,211	(50,735)	16,476	Finance and governance	68,142	(42,847)	25,295
117,063	(120,475)	(3,412)	Schools and education (DSG)	114,587	(117,552)	(2,965)
376,461	**(234,066)**	**142,395**	**Cost of Services**	**382,552**	**(226,145)**	**156,407**
		(203)	Other operating expenditure (Note 4)			21,334
		16,331	Financing and investment income and expenditure (Note 5)			16,579
		(146,262)	Taxation and non-specific grant income (Note 6)			(153,995)
		12,261	**(Surplus)/deficit on provision of services**			**40,325**
		(1,420)	(Surplus)/deficit on revaluation of non-current assets (Note 30)			(15,474)
		(2,854)	Re-measurement of the net defined benefit pension liability (Note 31)			(42,461)
		(4,274)	**Other comprehensive income and expenditure**			**(57,935)**
		7,987	**Total comprehensive income and expenditure**			**(17,610)**

EXPENDITURE AND FUNDING ANALYSIS – Note 1 - Page 34

2018/19 (restated)				2019/20		
Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the Funding and Accounting Basis (Analysis below) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the Funding and Accounting Basis (Analysis below) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
49,012	3,106	52,118	Adults and Prevention Services	49,523	2,604	52,127
2,332	(1,639)	693	Public Health and Wellbeing	1,829	(353)	1,476
31,301	12,340	43,641	Children, young people and education	34,615	12,589	47,204
8,783	2,398	11,181	Environmental services	8,619	2,547	11,166
6,654	7,512	14,166	Growth and Development	6,312	8,196	14,508
5,383	2,149	7,532	Digital and Customer Services	5,361	2,235	7,596
11,193	5,283	16,476	Finance and Governance	10,650	14,645	25,295
(602)	(2,810)	(3,412)	Schools and Education (DSG)	2,088	(5,053)	(2,965)
114,056	**28,339**	**142,395**	**Cost of Services**	**118,997**	**37,410**	**156,407**
(113,026)	(17,108)	(130,134)	Other income and expenditure	(121,875)	5,793	(116,082)
1,030	**11,231**	**12,261**	**(Surplus)/deficit**	**(2,878)**	**43,203**	**40,325**

(33,956)			**Opening General Fund Balance at 1 April**	**(32,926)**		
1,030			**(Surplus)/deficit**	(2,878)		
(32,926)			**Closing General Fund Balance at 31 March**	**(35,804)**		

NARRATIVE REPORT – Page 12

FINANCIAL PERFORMANCE OF THE COUNCIL 2019/20

Revenue Outturn

	Original Estimate £000	Revised Estimate (Qtr 4) £000	Actual Outturn £000	Variation from Revised £000
Net Expenditure				
Adults and prevention services	50,035	49,811	49,523	(288)
Public Health and wellbeing	2,323	1,995	1,829	(166)
Children, young people and education	30,782	30,950	34,615	3,665
Environmental services	8,926	8,795	8,619	(176)
Growth and development	7,705	6,322	6,312	(10)
Digital and customer services	5,526	5,611	5,361	(250)
Finance and governance	10,804	11,142	10,650	(492)
Schools and education (DSG)	(941)	(941)	2,088	3,029
Net portfolio controllable expenditure	**115,160**	**113,685**	**118,997**	**5,312**
Contribution from schools for prudential borrowing	(650)	(650)	(650)	0
Contribution to capital expenditure	300	1,073	1,073	0
Interest and debt repayment	19,559	17,929	17,787	(142)
Amounts to be allocated / contingencies	4,151	2,897	2,897	0
Parish councils	184	184	184	0
Total net expenditure	**138,704**	**135,118**	**140,288**	**5,170**
Contribution (from)/to reserves	(1,359)	7,684	2,878	(4,806)
Total net budget	**137,345**	**142,802**	**143,166**	**364**
Financed by:				
Non-ring fenced Government grants	(53,234)	(58,691)	(59,055)	(364)
Non-domestic rates	(30,843)	(30,843)	(30,843)	0
Council tax	(52,758)	(52,758)	(52,758)	0
Net surplus / (deficit) on Collection Fund	(510)	(510)	(510)	0
Total financing	**(137,345)**	**(142,802)**	**(143,166)**	**(364)**

This table was also reported to Executive Board on 11 June 2020

EXPENDITURE AND FUNDING ANALYSIS – Note 1 - Page 35

2019/20 Adjustments between the Funding and Accounting Basis	Adjustments for Capital Purposes (Note 1a) £000	Net change for the Pensions adjustments (Note 1 b) £000	Other Differences (Note 1 c) £000	**Total Adjustments £000**
Adults and Prevention Services	(6)	1,723	887	2,604
Public Health and Wellbeing	2,213	718	(3,284)	(353)
Children, young people and education	3,109	2,658	6,822	12,589
Environmental services	333	925	1,289	2,547
Growth and Development	6,982	936	278	8,196
Digital and Customer Services	1,023	658	554	2, 235
Finance and Governance	718	11,961	1,966	14,645
Schools and Education (DSG)	0	2,886	(7,939)	(5,053)
Net Cost of Services	**14,372**	**22,465**	**573**	**37,410**
Other expenditure and income from the Expenditure and Funding Analysis	3,299	3,905	(1,411)	5,793
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**17,671**	**26,370**	**(838)**	**43,203**

BALANCE SHEET – Page 32

31 March 2019 £000		Note	31 March 2020 £000
412,891	Property, plant and equipment	13	415,536
19,444	Heritage assets	16	19,444
57	Investment properties	17	50
1,562	Intangible assets	18	1,212
1,262	Long term investments	19	1,252
27,621	Long term debtors	20	27,652
462,837	**Long term assets**		**465,146**
6,163	Short term investments	26	38,045
356	Inventories	21	275
20,579	Short term debtors	22	21,078
25,634	Cash and cash equivalents	23	27,099
52,732	**Current assets**		**86,497**
(616)	Bank overdraft	23	(1,899)
(63,321)	Short term borrowing	26	(97,079)
(35,410)	Short term creditors	24	(34,213)
(1,766)	Grants received in advance		(115)
(101,113)	**Current liabilities**		**(133,306)**
(3,052)	Provisions	25	(2,547)
(137,050)	Long term borrowing	26	(137,815)
(342,814)	Other long term liabilities	27	(328,825)
(482,916)	**Long term liabilities**		**(469,187)**
(68,460)	**Net assets**		**(50,850)**
(40,105)	Usable reserves	30	(41,647)
108,565	Unusable reserves	30	92,497
68,460	**Total reserves**		**50,850**

MOVEMENT IN RESERVES STATEMENT - Page 31

	General Fund (b) £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves (Note 30) £000	Unusable Reserves (Note 30) £000	Total Reserves £000
Balance at 31 March 2018	**(33,956)**	**0**	**(7,050)**	**(41,006)**	**101,479**	**60,473**
Total comprehensive income and expenditure (a)	12,261	0	0	12,261	(4,274)	7,987
Adjustments between accounting basis and funding basis under regulations (Note 3)	(11,231)	(250)	121	(11,360)	11,360	**0**
Net (increase)/decrease in year	**1,030**	**(250)**	**121**	**901**	**7,086**	**7,987**
Balance at 31 March 2019	**(32,926)**	**(250)**	**(6,929)**	**(40,105)**	**108,565**	**68,460**
Total comprehensive income and expenditure (a)	40,325	0	0	40,325	(57,935)	(17,610)
Adjustments between accounting basis and funding basis under regulations (Note 3)	(43,203)	250	1,086	(41,867)	41,867	**0**
Net (increase)/decrease in year	**(2,878)**	**250**	**1,086**	**(1,542)**	**(16,068)**	**(17,610)**
Balance at 31 March 2020	**(35,804)**	**0**	**(5,843)**	**(41,647)**	**92,497**	**50,850**

NOTE 30 - RESERVES

USABLE RESERVES – Page 68

	Balance at 31 March 2019 £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31 March 2020 £000
Earmarked reserves				
Welfare, council tax and business rate reforms	**(178)**	15	0	**(163)**
Investments in assets and infrastructure	**(1,113)**	108	(71)	**(1,076)**
Other resources and transformation projects	**(331)**	0	(210)	**(541)**
Support for people services	**(4,466)**	2,320	(1,193)	**(3,339)**
Town centre, special events and economic development	**(619)**	50	0	**(569)**
Contingent sums to support future downsizing and transformation (including redundancy and pension strain costs)	**(2,880)**	276	0	**(2,604)**
Amounts carried forward in respect of unspent grants and contributions	**(2,253)**	1,739	(7,451)	**(7,965)**
Other amounts committed in future years budgets	**(287)**	109	(167)	**(345)**
Reserves held for specified purposes	**(2,336)**	1,395	(1,608)	**(2,549)**
Total earmarked reserves for discretionary purposes	**(14,463)**	**6,012**	**(10,700)**	**(19,151)**
Reserves held in respect of joint arrangements and charitable bodies	**(416)**	58	(7)	**(365)**
Reserves held in relation to schools	**(6,993)**	2,293	860	**(3,840)**
LMS schools balances	**(5,151)**	736	(860)	**(5,275)**
Total of non-discretionary reserves	**(12,560)**	**3,087**	**(7)**	**(9,480)**
Total earmarked reserves	**(27,023)**	**9,099**	**(10,707)**	**(28,631)**
Unallocated reserves	**(5,903)**	**4,759**	**(6,029)**	**(7,173)**
Capital receipts reserve	**(250)**	**2,116**	**(1,866)**	**0**
Capital grants unapplied	**(6,929)**	**13,272**	**(12,186)**	**(5,843)**
Total Council usable reserves	**(40,105)**	**29,246**	**(30,788)**	**(41,647)**

UNUSABLE RESERVES - Page 69

31 March 2019 £000		31 March 2020 £000
(84,241)	Revaluation Reserve	(97,557)
(53,389)	Capital Adjustment Account	(39,212)
1,868	Financial Instruments Adjustment Account	1,810
(26,275)	Deferred Capital Receipts Reserve	(26,273)
269,165	Pensions Reserve	253,074
(1,414)	Collection Fund Adjustment Account	(2,048)
2,851	Accumulated Absences Adjustment Account	2,703
108,565	**Total**	**92,497**

Grant Thornton

The Audit Findings for Blackburn with Darwen Borough Council

Year ended 31 March 2020

16 December 2020

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Blackburn with Darwen Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. There has still been a need to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and included an additional financial statement risk in respect of Covid -19 within our Audit Plan issued on 5th October 2020 and also highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant that some Council staff, as well as your audit team have had to adapt to new remote working arrangements which has seen a changing in working practices.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and it's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during July-December. Our findings are summarised on pages 5 to 16. Three adjustments to the primary financial statements have been made by management resulting in a £4.950m increase in the deficit on provision of services within the Statement of Comprehensive Income and Expenditure, as highlighted on page 24. A small number of disclosure adjustments have also been agreed with officers as detailed on page 25. One unadjusted mis-statement was identified which management chose not to amend as outlined on page 26. The financial statements were prepared to a good standard, and working papers were available on time at the start of the audit. Responses to our samples and other queries were comprehensive and timely. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters listed on page 5. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified, including an emphasis of matter paragraph, highlighting property, plant and equipment and pension fund property valuation material uncertainties.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Blackburn with Darwen Borough Council ('the Council') and the preparation of Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Blackburn with Darwen Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 17 to 19.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have substantially completed our audit of your financial statements and anticipate, issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 12 January 2021, subject to satisfactory completion of the tasks below.

The key outstanding items include:

- receipt of management representation letter;
- completion of a small number of outstanding audit procedures; and
- review of the final set of financial statements.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality

	Council Amount	Qualitative factors considered
Materiality for the financial statements	£7.144m	• This equates to 1.8% of your gross operating expenditure for 2019/20 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	£5m	• Based on 70% of materiality derived from the risk of misstatement
Trivial matters	£0.357m	• Based on a 5% of materiality
Materiality for specific transactions, balances or disclosures	Senior employees remuneration - £20,000	

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 2 July 2020. We also • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert and actuary; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The results of our work concluded that appropriate arrangements had been put in place to manage the COVID 19 situation which included the Council activating its Corporate Business Continuity Plan and emergency planning protocols through the Lancashire Resilience Forum (LRF). Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). You have disclosed this material uncertainty within your disclosure around assumptions made about the future and other major sources of estimation uncertainty. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. Similarly, there is also an impact of Covid-19 on the valuation of the Local Government Pension Fund (LGPS) property assets. Lancashire's LGPS accounts include a material uncertainty around the valuation of property assets and the fund auditor intends to include an emphasis of matter in their auditor's report in this regard. Your financial statements disclosures have been updated to reflect this and our audit report will also contain an "emphasis of matter" paragraph relating to this matter.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** As detailed in our Audit Plan, we do not consider this to be a significant risk for Blackburn with Darwen. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including Blackburn with Darwen mean that all forms of fraud are seen as unacceptable. Therefore and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work to date has not identified any evidence of management over-ride of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly programme. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register. **Findings** We are currently finalising our procedures in this area having received responses to a number of queries from the external valuer. Based on completion of procedures to date, we have no matters to report to you, other than those highlighted on page 24, which highlights the omission from the asset register of the revaluation of Darwen Leisure Centre. Having checked all 2019/20 revaluations we are satisfied that this was an isolated error. **Disclosures regarding material valuation uncertainty** The outbreak of Covid-19 has caused uncertainty in property markets. As a result, your valuer has included reference to a material uncertainty in their valuation report. The estimation uncertainty has been highlighted in your disclosure around assumptions made about the future and other major sources of estimation uncertainty We consider the disclosure is sufficiently detailed to meet the requirements of the accounting standards and that it is important to a readers understanding of the financial statements. As such, we plan to draw attention to the uncertainty through the inclusion of an Emphasis of Matter within the audit report. Based on the work performed to date we are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£265 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • reviewed of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuations; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and • 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. **Findings** We are aware that the Pension Fund Auditor is planning to include an emphasis of matter in their audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. Your financial statements disclosures have been updated to reflect this and our audit report will also contain an "emphasis of matter" paragraph relating to this matter. Subsequent to the publication of the draft financial statements, the proposed remedy to the McCloud judgement was published for consultation. The Actuary has notified management that their approach when calculating the past service cost in respect of McCloud/Sargeant in the 2018/19 pension liabilities and the current service cost in respect of McCloud/Sargeant in the 2019/20 accounts was in line with the eligibility criteria set out in the published consultation and that the calculations of additional liabilities and service costs are in line with those proposed in the consultation. Note 12 Events after the balance sheet date has been updated to reflect this. Work performed to date, we are satisfied that the value of the pension fund liability is not materially misstated within the financial statements.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary
IFRS 16 implementation has been delayed to April 2022	
Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	The Accounting polices on accounting standards that have been issued but have not yet been adopted has been updated to adequately disclosure of the likely future impact of IFRS16. The draft statements had not included reference to IFRS 16 within this accounting policy. We are satisfied that your updated disclosure is consistent with the requirements of IAS8.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings (including Surplus assets) - £237.6m	The Council request their valuer to revalue other land and building (opening value £234.7m) on a 5 year cycle, using depreciated replacement cost (DRC) for specialised assets such as schools, libraries, galleries and leisure centres. The remainder of operational other land and buildings are required to be revalued at existing use value (EUV). Surplus assets comprise an opening value of £11.2m and the majority are required to be revalued at fair value, estimated as highest and best use from a market participant's perspective. In 2019/20 the Council revalued £85.95m (39.2%)of other land and buildings and revalued £15.4m (100%) of surplus assets. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in its disclosure around assumptions made about the future and other major sources of estimation uncertainty. The total year end net book value of Other land and buildings and Surplus Assets was £237.6m, a net decrease of £8.3m since 2018/19	The Council's valuer identified a material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic. **Key observations** The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements. The Council has disclosed the estimation uncertainty related to the year-end valuations of land and buildings to the financial statements as set out above. • We assessed the qualifications, skills and experience of the Valuer and determined the service to be appropriate; • The underlying information prepared by the Council and supplied by the Valuer was considered to be complete and accurate; • The Valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates; and • We consider that the level of disclosure in the financial statements to reflect the material valuation uncertainty to be appropriate. All your land and buildings have been appropriately valued by the instructed valuer. There have been no changes in assumptions from the previous years and these are outlined in your accounting policies. **Conclusion** We are satisfied that the estimate of your land and buildings valuation is not materially misstated.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £253.1m	The Council's total net pension liability at 31 March 2020 is £253.1m (PY £265.7m) comprising the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit scheme administered by Lancashire County Council. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements..	For the LGPS we have undertaken a review of the relevant actuary's work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the scheme's actuaries. We have used PwC as auditors expert to assess the key assumptions made by actuary. We have no concerns over the competency, capability and objectivity of the actuary used by the Council. See below for consideration of the key assumptions used by the actuary.	● Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3%-2.4%	●
Pension increase rate	2.2%	2.1%-2.2%	●
Salary growth	3.6%	3.35%-3.6%	●
Life expectancy – Males currently 65 in 20 years time	25.1	22.5–24.7	●
Life expectancy – Females currently 65 in 20 years time	28.2	25.9-27.7	●

We have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by Mercers are reasonable for the purpose of valuing the liabilities at 31 March 2020.

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
The most significant events that occurred during the year was the Covid-19 pandemic.	During the audit we have considered the Council's response to addressing the challenges arising from Covid-19, and have seen evidence that management responded swiftly to the challenges of Covid-19.
Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement	The Council's valuation expert has raised uncertainty regarding how the impact of Covid-19 on market conditions may affect land and buildings valuations during 2020/21. The LGPS auditor has reported a material uncertainty around the valuation of the Pension Fund's property assets and Lancashire's LGPS auditor intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its property holding. As noted earlier this has been disclosed in the financial statements.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No disagreements with management occurred during the audit.
Other matters that are significant to the oversight of the financial reporting process.	None to report.

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process Management has provided: • Cash flows up to the period ended 31 March 2022 • Management's own assessment of going concern • Judgements and assumptions taken	The Council prepared a detailed assessment of going concern which highlighted a range of factors that have been taken into consideration including the Council's strategic objectives within its Corporate Plan, the 3 year Medium Term Financial Strategy (2019-22), consideration of government policy and legislative changes, forecasts and budgets, working capital and cash flow, and risk management. The budget for 2020/21 had been finalised and submitted in February 2020 however in late March 2020 the global pandemic of Covid-19 was announced affecting the economy and public sector bodies. The short term effects of the global pandemic has resulted in increased costs for public service bodies to meet the needs of the public and uncertainty over future funding as the government looks to support a decline in the economy. This therefore affects the short to medium term budget forecasts for the Council as budget submissions had been made based on a number of assumptions at the time. Management has assessed Covid-19 within its current forecasts. The Council is tracking all areas of increased expenditure and loss of income due to the pandemic as part of the MHCLG monthly return process. The Council is monitoring its cash flow forecasts and short-term borrowing has been, and will continue to be, scheduled in order to meet the Council's cash flow needs. Cash flow forecasts have been prepared covering the period to 31 March 2022. These are updated daily as more accurate information becomes available, and the estimates become actuals. The forecasted cash flow shows a projected cash balance at 31/3/2021 £16.359m and as at 31/2/22 a forecasted cash balance of £14.772m.
Work performed Management have provided us with a written assessment of going concern which we have reviewed in conjunction with cash flow forecasts and the MTFS.	Our work included: • determining whether the conclusions made by the management regarding the decision not to disclose any going concern material uncertainties in the financial statements were prudent and appropriate; • we have reviewed management's assessment in the light of the Council's position and the national context and assessed the underlying assumptions used to support management's preparation of the accounts on a going concern basis; • reviewing cash flow forecasts up to March 2022 to assess the existence of any material uncertainties related to going concern.
Concluding comments	Based on the audit work performed over the going concern assumption adopted by management, we are satisfied that it remains appropriate for the Council to prepare accounts on a going concern basis as at 31 March 2020. The Council have a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason we consider it appropriate for the entity to continue to adopt the going concern basis in preparing the financial statements. We do not consider there to be a material uncertainty which would cast doubt on the ability of the entity to continue as a going concern.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	• A letter of representation has been requested from the Council.
Confirmation requests from third parties	• We requested from management permission to send confirmation requests to bank and investment counter-parties. This permission was granted and the requests were sent. Where requests were returned these all included with positive confirmations, where responses were not obtained alternative procedures were performed and appropriate assurance obtained.
Disclosures	• Our review identified three amendments to the financial statements, as identified on page 24, with a small number of disclosure, presentational and consistency amendments also being made to the financial statements arising from the audit.
Audit evidence and explanations/significant difficulties	• All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Blackburn with Darwen Borough Council in the audit report

Value for Money

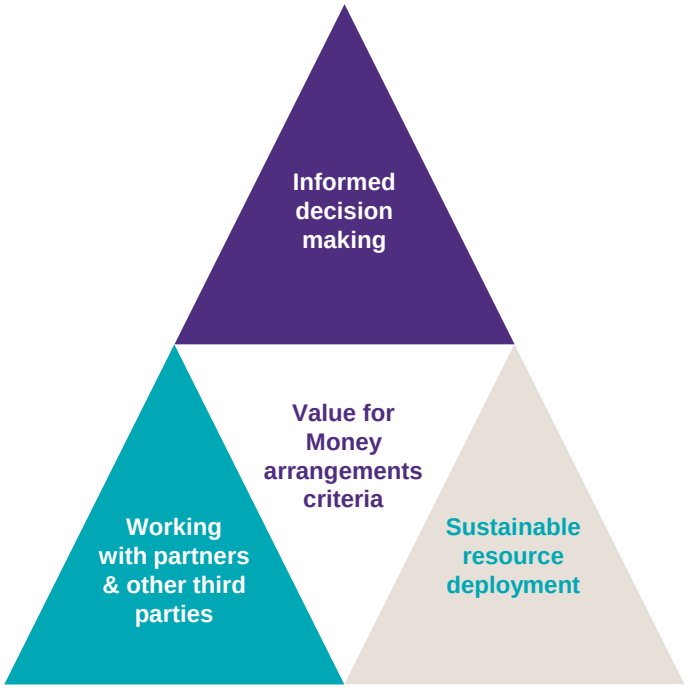
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in July 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 5th October 2020.

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

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

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.
We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 18-19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Value for Money

Key findings

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

Significant risk	Findings	Conclusion
Financial Sustainability The Council faces increasing financial pressures and in year budget monitoring reports highlighted a number of directorates with significant overspends. In addition, the Revenue Budget report for 2019/20 indicated the need to address cost pressures and a budget gap of £8.2m in 2019/20. We will review the arrangements that are in place for the regular monitoring of the in year financial position and assess how the future financial challenges including the need to deliver savings are being addressed.	Budget monitoring reports are produced quarterly and are taken to the Executive Board attended by both Members and the senior management team. Review of the December 2019 budget monitoring report and the March 2020 outturn report shows that the reports set out the current forecasted net outturn expenditure position by portfolio along with details of the actual revenue expenditure in relation to controllable budgets, with narrative around the reasons for any under or overspends against budget. Separate quarterly reports are also produced on the capital programme including a summary of new capital schemes approved. Any significant areas of expenditure slippage are summarised and there is informative narrative provided. Other financial information is provided on a quarterly basis within the reports including detail on the latest debtors and creditors position, along with a summary of borrowings and investments. The outturn financial performance for 2019/20 shows an overspend against portfolio budgets of £5.312 million at 31st March 2020 which has been funded through the Council's reserves. The overall level of usable reserves is £41.647m, including £7.2m General Reserves, £28.6m earmarked reserves and £5.8m capital grants unapplied. This compared with total usable reserves in 18/19 of £40.1m The 2020/21 Budget and MTFS 2020-2023 approved by Finance Council in February 2020 set a balanced budget for the year based on the assumptions made at that time. Since then, the Covid-19 pandemic has created a significant shock to the economy and resulted in significant, unplanned expenditure and income losses for the Council, which has been reported to the Executive Board and Council Forum. Work will continue over the coming months to monitor and forecast the costs and savings associated with both the pandemic and any other emerging budget pressures. In the meantime, arrangements are in place to scrutinise all existing expenditure plans and Executive Members and Directors are working to develop potential savings options for consideration. The Council has risen to the challenge of the Covid-19 pandemic and put in place arrangements to manage it including working closely with the Lancashire Resilience Forum (LRF). Given the recent government announcements around additional financial support to councils whilst there remains some very significant challenges ahead the Council is equipped to deal with these.	We conclude that there are appropriate arrangements in place for the in year reporting and monitoring of the financial position.

Value for Money

Key findings

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

Significant risk	Findings	Conclusion
Implementation of regulator recommendations		
The Council has been subject to a number of inspections and focused visits by external inspectors during 2019/20. It is essential that recommendations are acted upon in a timely manner to ensure quality services are delivered. We will review the arrangements the Council has implemented to ensure recommendations raised by inspectors are appropriately considered and addressed.	Two inspection reports/ letters had been issued to the Council during 2019/20 relating to a focused visit into Children's Services (March 20) and a joint inspection to judge the effectiveness of the area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. (SEND inspection). A series of findings/recommendations arose from both inspections. Our review of the arrangements taken to address the issues raised from both inspections showed that a number of actions have occurred and evidence has been provided which demonstrates the Council has taken seriously the findings from the inspections. Actions to address points raised include development of action plans, targeted training, revision of strategies, advice for staff, creation of specific documents to record how key decisions are made.	Based on our review we conclude that the Council has put in place appropriate arrangements to ensure recommendations raised by the inspectors are appropriately considered and addressed.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	10,450	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,450 in comparison to the total fee for the audit of £90,186 (after fee variations) and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	5,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,700 in comparison to the total fee for the audit of £90,186(after fee variations) and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Heritage Assets** Testing identified that the register of heritage assets had not been updated to reflect some recent valuations and that there was also an absence of an audit trail to support some the valuations. We have been provided with an analysis showing that the valuation of heritage assets was understated in the Council's accounts by £1.327m. We have seen evidence to support £0.392m of this figure. There is a need to ensure that where recent valuations are obtained supporting information is provided to Finance Section for the register of heritage assets to be updated in a timely manner. This is described further on page 26.	There is a need to ensure that when Heritage assets are revalued all the relevant supporting information is passed to the Finance Section so that their records can be updated in a timely manner. Where there has been significant movement in asset values the Council should consider obtaining further valuations for similar types of heritage assets **Management response** Management agree to work more closely with the Arts and Heritage Manager to ensure that relevant and up to date records are available to support all revaluations of Heritage Assets. The Council's accounting policies provide for the schedule of Heritage Assets to be reviewed each year and adjusted for additions and deletions or impairments (e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity), with formal valuations being provided when items are being loaned out to other organisations or where it is considered that there has been a material change to the condition of an asset.
Medium	**Fixed Asset Register** Our audit work identified that the revaluation dates included in the Council's fixed asset register were not accurate and as a result Note 13 had to be amended.	The Council should undertake an exercise to ensure that the fixed asset register is accurate and up to date. **Management response** The recommendation is accepted however the individual records of the revaluation dates held within the Civica asset register are 'incomplete' rather than 'inaccurate', as they only include the dates for revaluations carried out since the Fixed Asset module of the Civica system was implemented approximately two years ago. In addition, in cases where an asset is enhanced (e.g. due to capital expenditure) but is not revalued during the year, the system creates a "revaluation date" of 31st March, which is not a true reflection of when the asset was last formally revalued. As the data to populate the revaluation table in Note 13 is not easily obtainable at present, we have compiled a manual record of all the actual revaluation dates to enable verification of the relevant dates for the purposes of this disclosure.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2018/19 financial statements, which resulted in four recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Council's financial statements included approximately £23m of internal recharges within the CIES. Given the inclusion of recharges there is a risk of material misstatement if the removal does not occur in future years. The Council should ensure the accounting system allows for easy removal of all recharges in future year.	New journal codes for recharges have been introduced since the issue was reported last year. This year we have identified that only valid recharges remained related to schools.
✓	The Council's s151 officer input a number of journals in 2018-19. Our review of these journals confirmed that these related to reclassifications within the ledger, and there was no evidence of management override of control. However, senior officers' ability to process journal entries increases the risk of management override of controls. The Council should consider restricting the access levels in the main accounting systems to prevent senior management from inputting journals.	Our 2019/20 journals audit work has not highlighted any instances where senior management have input journals, since this issue was reported last year. Certain journal access levels for the Council's s151 officer have now been disabled.
✓	The Council's Narrative Report presented to audit did not fully comply with the Code, particularly in relation to performance issues. The Narrative Report is covered within our audit opinion and any non-compliance results in the risk of a modification of the opinion. The Narrative Report should be considered as a whole Council commentary, with involvement of finance, performance and service teams.	No similar issues have been identified from our review of the Narrative Report this year, other than the issue highlighted on page 25.
✓	The Council's MTFS highlighted that there continues to be risks in relation to its financial position. By the end of 2021/22 there is a gap of £6.6m, though other scenarios have been considered which suggest the gap may be higher. The Council needs to continue to focus on efficiencies and transformation to achieve savings.	The recommendation last year was based on the budget gap as presented to the Finance Committee in February 2019. Since then the Council has been working hard to try and close the gap over the course of 20/21, but clearly events have moved on since the original assessment both within the Council but also at a national level with regards to funding.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Conversion of School to Academy status			
Correction of accounting treatment of the transfer of Blackburn Central High School and Crosshill School to academy status - initially treated as a downward revaluation rather than a disposal of land and buildings. Disclosure amendments have also been made to the Cash Flow Statement, Note 13 (Property Plant and Equipment) to reclassify the transaction as a disposal rather than as a revaluation decrease and to Note 30 (Revaluation Reserve and the Capital Adjustment Account).	-18,996 (Children Young People and Education - gross expenditure) + 19,296 Other Operating Expenditure - Loss on disposal		+300
Darwen Leisure Centre Revaluation			
Adjustment to correct a 2019/20 revaluation gain on Darwen Leisure of £3.135m. This revaluation gain was not correctly actioned in the Council's asset register and as a result land and buildings and the revaluation reserve were both understated by £3.135m. Disclosure amendments have also been made to the Movement in Reserves Statement. Having checked all 2019/20 revaluations we are satisfied that this was an isolated error.	-159 (Health and Well Being – gross expenditure)	3,135 (Property, Plant and Equipment) -3,135 (Unusable Reserves)	-159
Surplus asset revaluation			
Correction of accounting treatment for Surplus Assets where revaluation increases had been posted to the Comprehensive Income and Expenditure Statement (Net Cost of Services) rather than to the Revaluation Reserve. Disclosure amendments have also been made to the Movement in Reserves Statement, Note 13 (Property, Plant and Equipment) and to Note 30 (Revaluation Reserve and the Capital Adjustment Account).	+4,809 (Finance & Governance - gross expenditure)		+4,809
Overall impact	**£4,950**	**Nil**	**£4,950**

Audit adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Narrative Report	The Narrative Report has been updated to reflect the latest financial position in respect of Covid 19.	✓
Note 7 Dedicated Schools Grant (DSG)	There was a classification error of £1.53m on the table summarising details of the Dedicated Schools Grants between the lines highlighting the final DSG for 2019/20 before academy and high needs recoupment, and Academy and high needs figure recouped for 2019/20.	✓
Note 12 Events after the Balance Sheet Date	The note has been updated to reflect pension property fund valuation uncertainties within Lancashire LGPS's financial statements as a result of Covid 19. The note has also been updated to reflect the changes and assumptions made around the proposed remedy to the McCloud judgement and the impact that this had for Blackburn.	✓
Note 13 PPE Revaluations	The table in note 13 highlighting the years when property, plant and equipment revaluations took place has been updated to correctly reflect the current value of assets revalued in the respect years.	✓
Note 26 Financial Instruments	The disclosure analysis of short term borrowings has been updated to ensure that it agrees with the short term borrowings figure on the Balance Sheet. Some of the narrative has been updated in the note to remove reference to IAS 39 terminology. Within Note 26 the Financial Liabilities disclosure covering short term borrowings has been amended to agree back to the £97.079m balance sheet figure for short term borrowing, the note previously disclosed this as £63.314m.	✓
Note 33 Related Parties	The note has been amended to ensure it only includes disclosures of related party transactions relating to Members where the Member has significant control over the organisation listed.	✓
Accounting Policies – Accounting standards that have been issued but have not yet been adopted	The accounting policy has been updated to include reference to IFRS 16.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
Heritage Assets			
Heritage assets had been understated in the Balance Sheet by £1.327m as a result of the register of heritage assets not being updated to reflect recent valuations.	0	+£1,327	Not material
Overall impact	**Nil**	**£1,327**	**Not material**

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£90,186	TBC
Total audit fees (excluding VAT)	**£90,186**	**TBC**

We set out in out audit plan how the Financial Reporting Council's has set its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and robust testing. This coupled with the recent impact of Covid 19 and the time taken in managing the audit in a more remote working environment, has clearly impacted out work and we will need to review the actual audit inputs required at the conclusion of our work to assess any fee implications arising from this.

In our experience, based on the indications from audits being undertaken to date, the issues highlighted above are increasing the time taken on audits by an average of 25%. We understand from discussions with ICAEW that this is similar to other firms. We are mitigating this as far as possible through reduced travel time and travel costs and will be looking at how we can absorb some of the remaining overrun ourselves. However, it is possible that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our performance in delivering to the November deadline. Whilst it is too soon to estimate whether there will be any additional costs to the Council it is important to highlight this matter to you. We will discuss any additional costs with the Council's s151 Officer as we progress further towards the concluding stages of the audit. We hope the explanation above and the recent Redmond report (that indicates that, before the impact of Covid-19 is taken into account, audit fees are under-priced by 25 percent) provides some context to any additional fees and the actions we are taking to mitigate them.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Benefit Claim	£10,450	TBC
Certification of Teachers Pension Return	£5,700	TBC
Total non- audit fees (excluding VAT)	**£16,150**	**TBC**

REPORT TO :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance
DATE:	12th January 2021

WARD/S AFFECTED: All

Approval of the Statement of Accounts 2019/20

1. PURPOSE

The report outlines the issues arising from the external audit of the Council's 2019/20 Statement of Accounts, and requests Audit Committee approval of the audited accounts prior to their publication, as required by the Accounts and Audit Regulations 2015.

2. RECOMMENDATIONS

Audit and Governance Committee is recommended to

1. Note the outcome of the audit of the Council's financial statements and the Value for Money conclusion as presented by Grant Thornton in their Audit Findings Report for 2019/20 (previous agenda item).
2. Approve the Statement of Accounts for 2019/20
3. Approve the letter of representation from the Director of Finance to the external auditors for which a draft is provided at Appendix 1, with the final version to be signed by the Director of Finance and the Chair of the Audit and Governance Committee at the date of issue of the audit opinion.

3. BACKGROUND

The annual statement of accounts is a statutory summary of the Council's financial affairs for the financial year and is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. It aims to give clear information on the Council's overall finances and to demonstrate its stewardship of public money for the year.

The Accounts and Audit Regulations 2015 require that the draft accounts be produced and authorised for issue by the Council's Director of Finance by 31 May each year. Following external audit review, the accounts should be approved by members, having considered the issues raised by the auditors in their Audit Findings Report, prior to publication by the 31st July following the year to which they relate.

Due to the impact of COVID-19, regulations were issued to extend the statutory audit deadlines for 2019/20 for all local authorities (The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020). The impact for the Council was as follows:

- the publication date for final, audited, accounts moved from 31 July to 30 November 2020
- the requirement for the public inspection period to include the first 10 working days of June was removed. Instead the public inspection period was required to commence on or before the first working day of September 2020.
- this meant that draft accounts must be approved by 31 August 2020 at the latest.

The 2019/20 draft Statement of Accounts were certified by the Director of Finance on 2 July 2020, and subsequently published on the Council's website. The audit of those draft accounts commenced in September 2020 and amendments have been made to the accounts in line with audit findings to date.

The external audit of the accounts was not concluded in time for the accounts to be published by 30 November, in the main due to the extra time required to complete additional audit work regarding the valuation of the Council's land and buildings assets. This is the case for numerous local authorities across the country.

In order to comply with the Accounts and Audit Regulations 2015, a notice has been published on the Council's website stating that the statement of accounts cannot currently be published, and confirming that the accounts will be published as soon as reasonably practicable after the receipt of a report from the auditor, which contains the auditor's final findings from their audit, and the issue of their audit opinion.

4. KEY COMPONENTS OF THE 2019/20 STATEMENT OF ACCOUNTS

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

Narrative Report

This introduction to the accounts provides information about Blackburn with Darwen, including its demographic profile, the Council's political and management structure, its main objectives and strategies and the principal risks that it faces. It provides a summary of the financial position as at 31st March 2020 and how the Council has used its resources to achieve its desired outcomes in line with its objectives and strategies. It also includes a commentary on the key issues affecting the Council over the financial year and the impact on its accounts, together with a brief summary of the content of the accounts.

The Core Financial Statements

The accounts consist of the following core financial statements supported by explanatory notes and the accounting policies applied by the Council in preparing and presenting those financial statements

Comprehensive Income and Expenditure Statement (page 29) - this statement shows the accounting cost in the year of providing services in accordance with the accounting framework provided by international reporting standards, rather than the legislative framework. The Council raises local taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement and the Expenditure and Funding Analysis (Note 1 – pages 34-36).

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

Movement in Reserves Statement (page 31) - this statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" and "unusable reserves". Also, how those movements are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The *Net (increase) / decrease* line shows the true statutory General Fund Balance movements in the year following those adjustments.

The financial performance of the Council is monitored during the year with budget variations being reported as soon as they are identified and the predicted level of reserves adjusted accordingly. The accounting position for the year, as reported in the Comprehensive Income and Expenditure Statement, is a deficit on the provision of services of £40.325 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows an increase in General Fund reserves of £2.878 million in 2019/20, compared to a budgeted contribution from reserves of £1.359 million when the annual budget was approved in February 2019. This final revenue outturn position was reported to the Executive Board on 11th June 2020.

Further details of the accounting adjustments made in accordance with proper accounting practice are in Note 3 (pages 38-39).

Balance Sheet (page 32) - this shows the value as at 31st March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council, which are reported in two categories:

- **Usable reserves** - those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use(for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- **Unusable reserves** - these are not able to be used to provide services, and include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line *Adjustments between accounting basis and funding basis under regulations*.

The total amount of General Fund revenue reserves held by the Council at 31st March 2020 was £35.804 million.

Usable Reserves	**31st March 2020 £000**
Earmarked Reserves:	
- set aside for discretionary purposes	19,152
- held in respect of schools	9,114
- held in respect of joint arrangements	365
	28,631
Unallocated Reserves	7,173
General Fund Reserves	**35,804**
Capital Receipts Reserve	0
Capital Grants Unapplied	5,843
Total Usable Reserves	**41,647**

Details of the movements in reserves are shown in Note 30 to the financial statements (pages 67-71).

The *Other Long Term Liabilities* line of the Balance Sheet includes the long-term element of the liability in relation to the PFI contract for BSF Schools (£61.603 million) and the Local Government Pension Scheme liability of £253.074 million. The pension scheme liability represents the underlying commitments that the Council has in the long term to pay retirement benefits, however, the arrangements for funding means that the financial position of the Council remains healthy with the deficit being made good by increased contributions over the remaining work life of employees as determined by the scheme actuary.

Cash Flow Statement (page 33) - this statement shows the changes in cash and cash equivalents of the Council during the reporting period. It analyses cash flows into those generated by operating activities, investing activities and financing activities. The detail of each category is contained within Note 32 (pages 79-81).

Notes to the Financial Statements (pages 34-84) – the order of the disclosure notes aims to provide a narrative that flows logically, with the initial notes providing information to support the Comprehensive Income and Expenditure Statement and an explanation of how that differs from the portfolio budget monitoring position presented throughout the financial year. Notes 13-32 provide further analysis of the amounts included in the Balance Sheet and Cash Flow Statement, and additional disclosures required by the accounting Code follow at the end of the section. An index of the notes is included at page 2.

Collection Fund (pages 85-87)

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

Accounting Policies (pages 88-108)
In addition to a summary of the main accounting policies applied by the Council in preparing and presenting the statement of accounts, this section includes details of:

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

5. KEY ISSUES

Audit Findings Report

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

A number of adjustments have been made to the Statement of Accounts published on 2 July 2020 in order to correct misstatements and misclassifications and to enhance the Narrative Report and disclosure notes. Further details of these amendments are included within the Audit Findings Report.

There is also one unadjusted misstatement included in the Audit Findings Report, in relation to the revaluation of Heritage Assets. These amounts have not been adjusted in the 2019/20 Statement of

Accounts as they are immaterial to the results of the Council and its financial position as at 31 March 2020, although they will be addressed in the 2020/21 accounts.

Letter of Representation

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

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

The Accounts and Audit (England) Regulations 2015 and The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 apply for accounts and reports relating to the financial year 2019/20, and completion in accordance with International Financial Reporting Standards is required in order to comply with both the statutory framework established by the Accounts and Audit Regulations, and proper accounting practices required by Section 21(2) of the Local Government Act 2003.

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9. RESOURCE IMPLICATIONS

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

10. EQUALITY & HEALTH IMPLICATIONS

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

VERSION:	**0.01**
CONTACT OFFICER:	Julie Jewson, Senior Finance Manager
DATE:	15th December 2020
BACKGROUND PAPER:	Statement of Accounts 2019/20

Draft letter of representation.

Blackburn with Darwen Borough Council

Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Blackburn with Darwen Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

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

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

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

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

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

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

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

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

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

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

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

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

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic, from whom you determined it necessary to obtain audit evidence.

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

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

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

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a) management;

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

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

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

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

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

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

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 12th January 2021. Management will ensure that the final version of the statement of accounts comprising other information, will be provided to us prior to issuance.

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

Blackburn with Darwen Council
Statement of Accounts
2019/20

CONTENTS

C O N T E N T S

INDEX OF NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION BY THE DIRECTOR OF FINANCE – Louise Mattinson

I am very pleased to introduce you to Blackburn with Darwen's Statement of Accounts for the financial year 2019/2020. It is intended that these accounts provide a useful source of financial information for the community, stakeholders, Council Members and other interested parties.

This gives me the opportunity to highlight just some of the many excellent achievements of the Council over the course of the last year, which have been delivered in spite of the financial challenges faced, including further funding reductions and the continued rising demand for services, particularly in Children's Services. Despite this, as a Council we remain committed to ensuring we continue to develop, prosper and grow and that we make the borough a better place to live, work and visit.

The Narrative Report provides information about Blackburn with Darwen, its main objectives and strategies and the principal risks that it faces, as well as providing a summary of the financial position as at 31st March 2020 and how the Council has used its resources to achieve its desired outcomes in line with those objectives and strategies.

THE BOROUGH OF BLACKBURN WITH DARWEN

Introduction

Blackburn with Darwen is a semi-rural unitary borough located in the east of Lancashire. It has compact urban areas predominately but not exclusively located around the towns of Blackburn and Darwen. The area is surrounded by countryside and features a number of small rural villages and hamlets. Blackburn with Darwen borders Bury and Bolton in the south, Chorley in the west, Hyndburn and Rossendale in the east and Ribble Valley in the north. The borough is well located with good transport and infrastructure links to the rest of Lancashire, Greater Manchester and beyond.

With over 4,900 businesses, the borough contributes about 9% of the Lancashire business base and is home to the largest number of businesses of the Pennine Lancashire authorities. A range of sectors operate in the borough, including the large public sector local government and health sector employers, Blackburn College and a number of large private sector businesses, which include:

- Crown Paints
- John Lewis supplier Herbert Parkinson
- Graham and Brown wallcoverings
- Euro Garages

Over two thirds of jobs in the borough are found in the main sectors of; health, manufacturing, education, retail, business administration and support services and professional, scientific and technical services.

Despite a national decline the borough still retains a higher than average level of employment in the manufacturing sector. Although the majority of employee jobs in the borough are found in the private sector, employment within the public sector is above regional and national averages. The borough has an entrepreneurial culture, with a business start-up rate higher than Lancashire as a whole and a greater proportion of higher turnover business than the Lancashire average.

Demographic profile

In 2016 the population was 148,800, making it the largest borough in Lancashire. The majority of the boroughs residents (in the region of 140, 000 people) live in the towns of Blackburn and Darwen with the remaining residents living in the rural villages and hamlets (Hoddlesden, Edgworth, Belmont, Chapel Town and Tockholes) that surround the two major urban centres.

The borough as a whole has a relatively young age profile. It has a higher than average proportion of young people (0-19) compared to the national figure and conversely, a smaller proportion of older people (65 and over). As a multicultural borough, the area is home to many people with diverse ethnicities and identities.

The profile of the population is an important determinant of the demand for services provided by the Council, such as the need for adults and children's social care.

Political structure

Blackburn with Darwen Council is split into 17 wards each represented by 3 councillors, with one third standing for election three years in four. The political make-up of the Council during 2019/20 was as follows:

Party	Number of councillors
Labour	36
Conservative	13
Liberal Democrat	2
Total	51

Local councillors are elected by the community to decide how the council should carry out its various activities. All councillors meet together as the Council, where they decide the Council's overall policies and set the budget each year.

The Executive is the part of the Council which is responsible for most day to day, or operational, decisions. The Leader of the Council appoints members to the Executive Board and determines the allocation of portfolios to Executive Members. The Leader also determines the allocation of any seats to the opposition parties.

The Executive Board has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must usually be referred to the Council as a whole, except in cases of emergency.

When major decisions are to be discussed or made, these are published in the Executive's forward plan in so far as they can be anticipated. Meetings are open to the public except in instances where confidential or exempt information (as defined in the Local Government Act 1972) is being discussed.

Management Board responsibilities

Supporting the work of the Councillors is the Management Board which is led by the Chief Executive, Denise Park. The make-up and responsibilities of the Management Board is as follows:

CHIEF EXECUTIVE
(Head of paid service)

PLACE		RESOURCES			PEOPLE		
Director of Growth & Development	Director of Environment & Operations	Director of Digital & Business Change	Director of Finance	Director of Legal & Governance	Director of Adults & Prevention (Deputising role for Chief Executive)	Director of Public Health & Wellbeing	Director of Children's Services & Education
• Growth & development strategies • Planning • Development management • Building control • Traffic & transport • Property & buildings • Carbon management • Town centres • Business centres • Markets	• Civic halls • Environmental services • Waste, refuse collection & recycling • Cemeteries & crematorium • Grounds maintenance • Car parking • Public protection • Private sector housing • Landlord licensing • Highways & network management • Drainage	• Statutory SIRO • Information technology • Information governance digital strategy • Digital First programme • Business analysis • Programme & project management • IT service desk & support • Business support services • RIPA SRO	• S151 Officer • Revenues & benefits • Budget & accounts • Treasury management • VAT • Audit, risk & assurance • Procurement • Customer services • Registrars • Advice services	• Monitoring Officer • Standards • Human Resources • Payroll • Organisational development • Health & safety • Legal services • Complaints • Democratic services • Scrutiny • Elections • Mayoralty • School appeals • Civil contingencies	• Statutory DASS • Assessment & care management • Safeguarding • Integrated commissioning • Market oversight – quality & contract monitoring • External social care • Workforce development • Health integration • Demand management & prevention • Community safety • Cohesion & prevent • Adult learning • Housing needs • Asylum seekers	• Statutory DPH • Public health strategy • Public health provision • Link to Public Health England • Health & Wellbeing Board • Support to CCG & wider health system • Health policy & research • Healthwatch • Leisure • Refresh health & wellbeing • Libraries • Museum & arts	• Statutory DCS • Social work • Child protection / safeguarding • Looked after children • Fostering & adoption • Early years / children's centres • Health interface • Youth Offending Team (YOT) • Education services • Schools forum • School improvement • School organisation • Young people's services

Staffing

The Council is supported by administrative, professional, technical and operational employees whose role it is to advise the Council on all aspects of its functions and to put into effect decisions which are taken in order to provide services to the public.

The Council employs around 2,175 people in full time and part time roles with around another 1,991 people employed in schools.

Corporate Plan 2019-2023

The Corporate Plan 2019-2023 was agreed by elected members in March 2019 and sets out the Council's eight priorities for the next four years. We believe our Corporate Plan will enable all of our residents to achieve a good quality of life in a vibrant and thriving place, with strong community values and an inclusive society.

The plan is for everyone – councillors, staff, partners, residents, businesses – who can support the council in being the best it can possibly be. It has eight strategic priorities:

PEOPLE	PLACE	ECONOMY	COUNCIL
Supporting young people and raising aspirations	Connected communities	Strong economy to enable social mobility	Transparent and effective organisation
Safeguarding and supporting the most vulnerable people	Safe and clean environment	Supporting our town centres and businesses	
Reducing health inequalities and improving health outcomes			

The new plan is informed by several key pieces of work and activity including Joint Strategic Needs Assessment (JSNA), a Local Government Association (LGA) Peer Review held in December 2018, a partnership summit, the 2018 residents' survey and independent economic analysis.

The plan reflects what the Council wants to achieve for residents and businesses and will help inform policy and budget decisions, as well as supporting bids for external funding. A new performance framework has been developed to measure how the council is performing against its eight priorities.

Priority 1. Supporting young people and raising aspirations

Our young people are the future of our Borough and we are committed to support them from birth and through their journey to becoming adults.

We will:

- work with parents and carers to enable them to access good quality early years education and learning so that our children are ready for a strong start at school.
- work with our schools, communities and partners to continue to nurture well rounded independent young people.
- work with all of the schools, colleges and partners to support young people in achieving their full potential.
- work with partners to ensure young people have access to clear careers advice and guidance and are equipped with the skills and qualities to access jobs.

Priority 2. Safeguarding and supporting the most vulnerable people

We have a duty to safeguard people of all ages to be safe from harm and live a life free from abuse, neglect and unfair treatment, and support those who choose to live independently.

We will:

- provide support locally and at the earliest opportunity to ensure people are safeguarded and protected.
- work with partners to guarantee that people in need of support and protection continue to receive it from the right agencies at the right time for as long as they need it.
- support our safeguarding partnerships arrangements to ensure that local agencies co-ordinate their work to safeguard vulnerable people of all ages and are effective.

Priority 3. Reducing health inequalities and improving health outcomes

We are committed to increasing life chances for our residents by improving health and wellbeing; creating healthy places and giving all people the opportunity to Start Well, Live Well and Age Well.

We will:

- work with people earlier to prevent ill health and poor wellbeing, promoting self-care and supporting independence to enable people to live well at home.
- work with our partners to make sure that our residents have access to good quality sporting and leisure facilities across the Borough and can access wellbeing activity in their local neighbourhoods.
- work with the NHS, third sector, public sector partners and business to improve people's mental health and wellbeing through advice, support and activities.
- consider the impact on health and wellbeing in all of our services.
- work with local NHS services to reform, integrate and improve the health and social care system and to extend the investment in prevention for all of our residents.

Priority 4. Connected communities

Communities bring a sense of belonging for many people, breaking through social isolation and building personal resilience. We remain committed to strengthening resilient communities and groups.

We will:

- ensure that residents have access to a broad range of good quality festivals and events across the Borough to bring neighbourhoods and communities together.
- make volunteering easier and work with partners and residents to direct volunteer support where it's needed the most.
- support communities and community groups to access funding and other resources.
- work with communities to become digitally enabled.
- recognise the achievements of our communities and the valuable contribution of residents.
- support activity to enable people from different backgrounds or beliefs to integrate.

Priority 5. Safe and clean environment

We want the Borough to be a safe and clean place to live and visit, promoting pride in the area and environment.

We will:

- work with our residents, schools and businesses to raise awareness of the positive environmental and financial impacts of recycling
- work with communities, environmental organisations and groups to help keep neighbourhoods clean and tidy.
- continue to invest in our roads and pavements to make sure they are safer.
- work with our citizens and businesses to promote behaviours, using enforcement action where necessary and in the best interest of public protection.

Priority 6. Strong, growing economy to enable social mobility

We are committed to making sure that everyone of working age is able to access jobs, career progression and make a positive contribution to the economy, irrespective of their social circumstances and background.

We will:

- work with our partners to improve productivity through skills, innovation, sector and trade programmes.
- develop and deliver a strategic pipeline of growth programmes attracting investment and generating new economic, housing and infrastructure growth opportunities.
- deliver sustained growth and higher value employment for all our residents as an enabler to social mobility.

- provide a broad and good quality house choice for all our residents, transforming old housing stock, building new homes and working with private and social landlords to improve the rental market.
- work with partners and investors to secure the Borough regionally and nationally as an investment priority.

Priority 7. Supporting our town centres and businesses

Thriving town centres and businesses are crucial to the success of the Borough and its residents. We are committed to creating the right environment and support to maximise growth and increase investment.

We will:

- work with partners to strengthen the economic and cultural offers of Blackburn and Darwen town centres.
- promote and encourage local procurement to support local businesses.
- work with Hive to establish a powerful business network to promote Blackburn with Darwen and support wider engagement with new investors to the Borough.
- encourage entrepreneurship and new business growth drawing on our young, culturally rich and dynamic population.

Priority 8. Transparent and effective organisation

Residents and businesses must have confidence in the Council and we remain committed to being the best we can possibly be.

We will:

- ensure that all our services are delivered in a cost effective and efficient way supported by technology and in collaboration with our partners and citizens.
- make best use of our available resources and assets providing value for money for residents and businesses.
- be open and transparent in our leadership and governance.
- maximise external funding and be commercially active bringing greater resilience to our finances.
- take active steps across all council departments to reduce our carbon footprint and be even more environmentally and ecologically aware.

Corporate Plan Performance Summary

To help the Council measure its performance against the eight corporate priorities outlined in the previous section, there are 69 key performance indicators (KPIs). Of the 69 measures, assessment was made as follows as at the end of 2019/20:

- 5% (4 actual) have been forecast as “red” were performance is or is likely to be off track.
- 22% (15 actual) have been forecast as “amber” where delivery is on track and is currently being managed.
- 52% (36 actual) were forecast as “green” or on track.
- 21% (14 actual) of the measures did not have an assessment at the year end.

The number of instances where it has not been possible to report data has increased significantly from the previous year, due to Council resources being diverted to respond to the Coronavirus pandemic.

Guidelines provided to assist departments in allocating a RAG rating to their targets, are as follows:

RED	• The measure is likely to fail or perform poorly in the future • The measure falls below a set national target / statutory required performance. • The measure may also be below a minimum requirement for the particular service as agreed by the department • The lead department perceives there could be a potential serious risk to the Council
AMBER	• The measure is at risk of failure, but the lead department feels this is currently being managed • Actions are or need to be in place to ensure that the end of year position is achieved
GREEN	• The measure is on target/ over performing / over achieving (if departmental target has been set) • The lead department perceives there is currently no risk to the council in relation to this measure.

The table below shows a breakdown of the measures across priorities:

Priority		Total	Red	Amber	Green	Data is currently unavailable
People (27) A good quality of life for all of our residents	**P1 – Supporting young people and raising aspirations**	**6**	0	1	1	4
	P2 – Safeguarding and supporting the most vulnerable people	**8**	0	4	3	1
	P3 – Reducing health inequalities and improving health outcomes	**13**	1	3	6	3
Place (12) Community pride in a vibrant place to live and visit	**P4 – Connected communities**	**7**	0	2	5	0
	P5 – Safe and clean environment	**5**	0	2	3	0
Economy (14) A strong and inclusive economy with continued growth	**P6 – Strong, growing economy to enable social mobility**	**10**	0	0	8	2
	P7 – Supporting our town centres and businesses	**4**	0	0	4	0
Council (16) Delivered by a strong and resilient council	**P8 – Transparent and effective organisation**	**16**	3	3	6	4
Total		**69**	**4**	**15**	**36**	**14**
Overall percentage		**100%**	**5%**	**22%**	**52%**	**21%**

Whilst the performance for the year across the Council was predominantly positive, challenges persist; those areas where progress has not been made as anticipated, or where targets were not achieved (and therefore performance has been rated Red) relate to the following measures:

P3 – Reducing health inequalities and improving health outcomes	**Performance Measure: No. 20** Increased number of residents referred and discussed at the integrated neighbourhood team (INTs) weekly meeting	**Target:** Greater than 5% - 194 per quarter **Baseline:** 740 (2018/19) **Performance 2019/20:** 640
P8 – Transparent and effective organisation	**Performance Measure: No. 60** Undisputed and valid supplier invoices paid within 30 days	**Target:** 100% **Baseline:** 85% (2018/19) **Performance 2019/20:** 74%
	Performance Measure: No. 65 Achieve a breakeven or underspend against overall portfolio and corporate budgets	**Target:** Breakeven or underspend **Baseline:** Breakeven **Performance 2019/20:** £2.283m overspend across the portfolio budgets.
	Performance Measure: No. 68 Reduction in employee absence through sickness	**Target:** 8 days per annum **Baseline:** 8.81 days (2018/19) **Performance 2019/20:** 9 days (8.81 days excluding COVID-19)

A report on the Council's progress against the Corporate Plan was included on the agenda for the Executive Board meeting held on 11th June 2020. Appendix Two to the report outlines the reason for the performance, what the likely impact of continued performance at this level would be and what activities have been, or are being, put in place to address these issues. The report can be found on the Council's website.

Response to COVID-19

In response to the COVID-19 pandemic, the Council activated its Corporate Business Continuity Plan and emergency planning protocols in March 2020 and through the Lancashire Resilience Forum (LRF) and working with partners, has responded to the outbreak at pace, working extremely hard to put in place all of the new measures introduced, and the guidance issued by the Government.

HM Treasury announced an unprecedented package of financial measures to try and mitigate the economic impact of the crisis to protect jobs and prevent companies from going into administration during the period.

To manage the emergency the Government made a series of policy announcements, some of which required local authority support to implement to assist residents and businesses, and some of which have had considerable financial and operational impact on the Council, both in the short and longer term.

Working closely with our partners in the Lancashire Resilience Forum (LRF), in the NHS, the local community, the voluntary sector and with care homes over the last couple of months, we have worked at speed to establish and deliver new services, to support the most vulnerable people in our community, to establish new ways of working for our staff and to support our residents, businesses and public services of which just two examples include;

BwD Help Hub - operating 7 days per week, providing a range of support to residents, including information and advice and delivering food and essential supplies to people in need, including those who were shielding and vulnerable people who were isolating and had no other means of support. The food operation ceased on 30th June and Phase 2 of the Hub now focuses on offering support to promote resilience post crisis.

Accommodation for rough sleepers - the Council quickly responded to the Government's request to urgently accommodate all rough sleepers and has been leading a Pennine Lancashire approach as part of the LRF

Protect and Care response. This has been built on the back of our existing arrangements with the Salvation Army, expanded to include additional properties alongside the sublet of a hotel in Pendle which has been used to accommodate individuals who are discharged from hospital with no fixed address or who are at risk of homelessness.

Reserves, financial performance and financial position

Some of the Government's initiatives have been supported by additional funding, and the Council has received several government grants;

- Government have provided four tranches of emergency COVID-19 grant funding to Local Government amounting to £4.6 billion, of which Blackburn with Darwen has received £15 million.
- In addition, £1.3bn has been provided directly to Clinical Commissioning Groups (CCGs) to support the hospital discharge process with local authorities.
- The Council has also received funding from the Government for which it acts as conduit for onward payment of the funding through to those for whom it is intended, including;
  - £2.2 million of the £500 million Hardship Grant, to provide further Council Tax relief for vulnerable residents (for which each working age Local Council Tax Support (LCTS) recipient will receive a further discount of up to £150);
  - £16.3 million of the additional £1.8 billion of Business Rate Relief provided;
  - £46.4 million of the £12.3 billion Business Rate Grant Support Fund for Small Businesses and the Retail, Leisure and Hospitality sector;
  - £2.2 million of the £617 million made available to support those businesses with ongoing premises costs but who have not met the qualifying criteria for Business Rate Grant Support Fund - this is a Discretionary Scheme and each individual council is required to establish their own, individual scheme, and finally;
  - £1.4 million of the £600 million Care Home Infection Control funding.
  - Funding to support individuals who are self-isolating

Further funding made available to the Council has included;

- support for the re-opening of High Streets safely, this grant will be claimed from Government, in arrears, based on actual expenditure incurred;
- the emergency active travel fund, comprising both revenue and capital funding;
- support for the Test and Trace service;
- compensation for the loss of income from sales, fees and charges.

From a cash-flow perspective, the Government has provided support through arrangements including the upfront payment of a number of the compensatory grants and the deferral, until July, of the pay-over of central government's share of Business Rates due.

The Council has undertaken detailed costing and forecasting to project both the additional expenditure incurred as a result of COVID-19 and the loss of income. This is under constant review and is updated and reported to Members and Management Board.

We will continue to monitor and estimate the costs and loss of income associated with this over the coming months, in the meantime we have put in place arrangements to scrutinise all existing expenditure plans and Executive Members and their Directors continue to work to develop further savings options for consideration.

FINANCIAL PERFORMANCE OF THE COUNCIL 2019/20

Revenue Outturn

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

The Council's proposals for the Revenue Budget 2019/20 and the Medium Term Financial Strategy (MTFS) for 2019-22 were agreed at Finance Council on 25th February 2019. The purpose of the MTFS is to set the financial framework for the Council for the medium term to ensure delivery of the Council's strategic objectives and major projects. As 2019/20 was the final year of the government's four year local government finance settlement it was challenging to model a longer term strategy which included a significant number of assumptions. Within this financial context, the MTFS was drafted to ensure that the Council's strategy remains to help support those in hardship whilst encouraging the growth of jobs and businesses.

For 2019/20 Blackburn with Darwen Council, joined with 13 of the other 14 councils across Lancashire to form a 75% Business Rates Retention (BRR) Pool Pilot. As a condition of the pilot model, the Lancashire authorities have forgone Revenue Support Grant (RSG) in lieu of the additional retained Business Rates. The pilot authorities retain 75% of locally raised Business Rates, of which 73.5% was retained by Blackburn with Darwen Council and 1.5% retained by Lancashire Combined Fire Authority – increased from 49% and 1% respectively.

At Finance Council on 25th February 2019, the Council approved a revenue budget of £137.345 million. This represented approved net expenditure of £138.704 million (including parish precepts of £183,500) less a contribution from Council reserves of £1.359 million. The final outturn position for the year against the budget is analysed by portfolio in the table below, together with the sources of funding.

	Original Estimate £000	Revised Estimate (Qtr 4) £000	Actual Outturn £000	Variation from Revised £000
Net Expenditure				
Adults and prevention services	50,035	49,811	49,523	(288)
Public Health and wellbeing	2,323	1,995	1,829	(166)
Children, young people and education	30,782	30,950	34,615	3,665
Environmental services	8,926	8,795	8,619	(176)
Growth and development	7,705	6,322	6,312	(10)
Digital and customer services	5,526	5,611	5,361	(250)
Finance and governance	10,804	11,142	10,650	(492)
Schools and education (DSG)	(941)	(941)	2,088	3,029
Net portfolio controllable expenditure	**115,160**	**113,685**	**118,997**	**5,312**
Contribution from schools for prudential borrowing	(650)	(650)	(650)	0
Contribution to capital expenditure	300	1,073	1,073	0
Interest and debt repayment	19,559	17,929	17,787	(142)
Amounts to be allocated / contingencies	4,151	2,897	2,897	0
Parish councils	184	184	184	0
Total net expenditure	**138,704**	**135,118**	**140,288**	**5,170**
Contribution (from)/to reserves	(1,359)	7,684	2,878	(4,806)
Total net budget	**137,345**	**142,802**	**143,166**	**364**
Financed by:				
Non-ring fenced Government grants	(53,234)	(58,691)	(59,055)	(364)
Non-domestic rates	(30,843)	(30,843)	(30,843)	0
Council tax	(52,758)	(52,758)	(52,758)	0
Net surplus / (deficit) on Collection Fund	(510)	(510)	(510)	0
Total financing	**(137,345)**	**(142,802)**	**(143,166)**	**(364)**

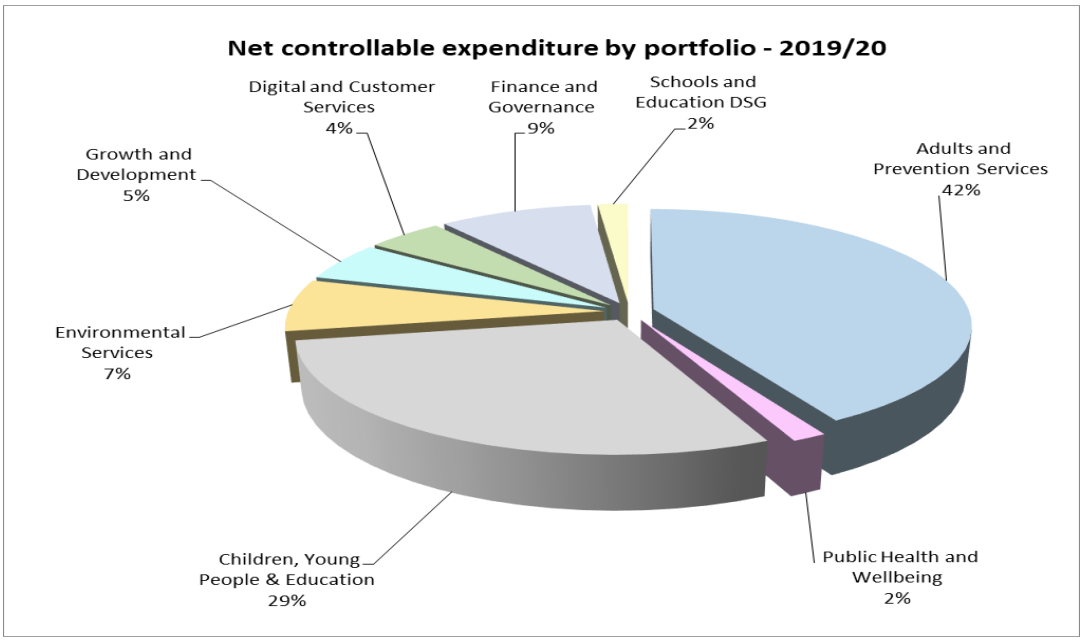
Revenue and capital budget monitoring information is reported to the Executive Board on a quarterly basis throughout the year, with the actual outturn position being reported in the Quarter 4 report. In addition, Treasury Management performance is reviewed by the Treasury Management Group and reported to the Audit and Governance Committee. Decisions about resource allocation are taken by the Council's Executive Board on the basis of budgets analysed across portfolios as shown above. Portfolio controllable budgets are monitored and revised throughout the year and actual expenditure and income (revenue outturn) is measured against this revised budget at the financial year end.

The overall revenue outturn position in respect of portfolio controllable budgets was slightly improved from that reported at the end of December 2019 (Quarter 3). The most significant variance was in relation to Children's services which had reported significant and growing cost pressures throughout the year due to increased demand, particularly in respect of externally commissioned placements, special guardianship orders and the fostering service. Efforts were made wherever possible to contain these costs and a new Duty and Advice service was introduced in order to manage the "front door" and assessment activity more effectively. This new service has had a positive impact and the numbers of referrals have been reduced significantly, however it will take time before we see fewer numbers of 'looked after' children and a resultant reduction in the cost pressures.

Most of the other portfolios presented a more favourable outturn position, having identified actions to mitigate any pressures reported during the year. Budgets in relation to schools are ring fenced under the heading *Schools and education (DSG)* and funded by Dedicated Schools Grant. The reported deficit of £3.029 million is made up of a reduction across all of the individual school balances of £736,000, and an overspend of £2,293,000 in respect of centrally retained budgets. The majority of the latter is attributable to the High Needs Block and is due to demand pressures in respect of children with Special Educational Needs. The Department for Education (DfES) have invested an additional £2.2 million (12%) into the Council's High Needs Block in the financial year 2020/21.

In addition to the portfolio position, there were also savings in respect of interest and debt repayment budgets, following further refinancing of the Council's long-term investment in *Blackburn with Darwen and Bolton Local Education Partnership*.

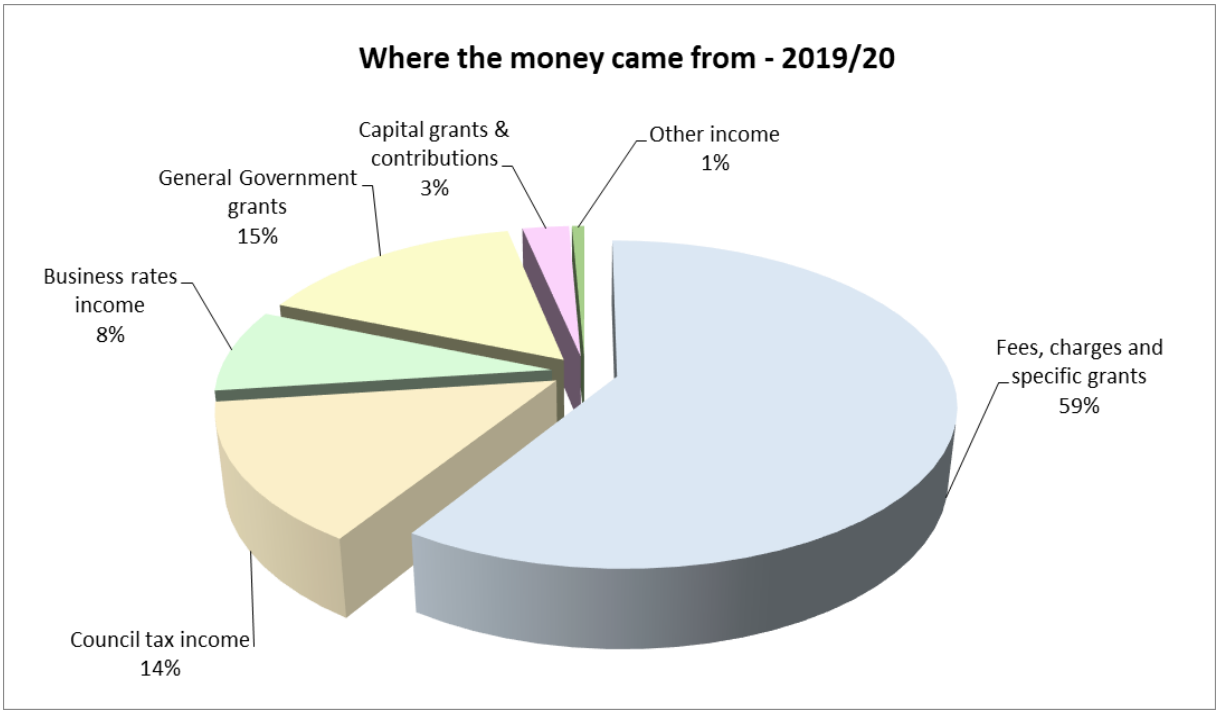
The net controllable expenditure by portfolio (excluding *Schools and education (DSG)*) for 2019/20 is shown in the chart below:

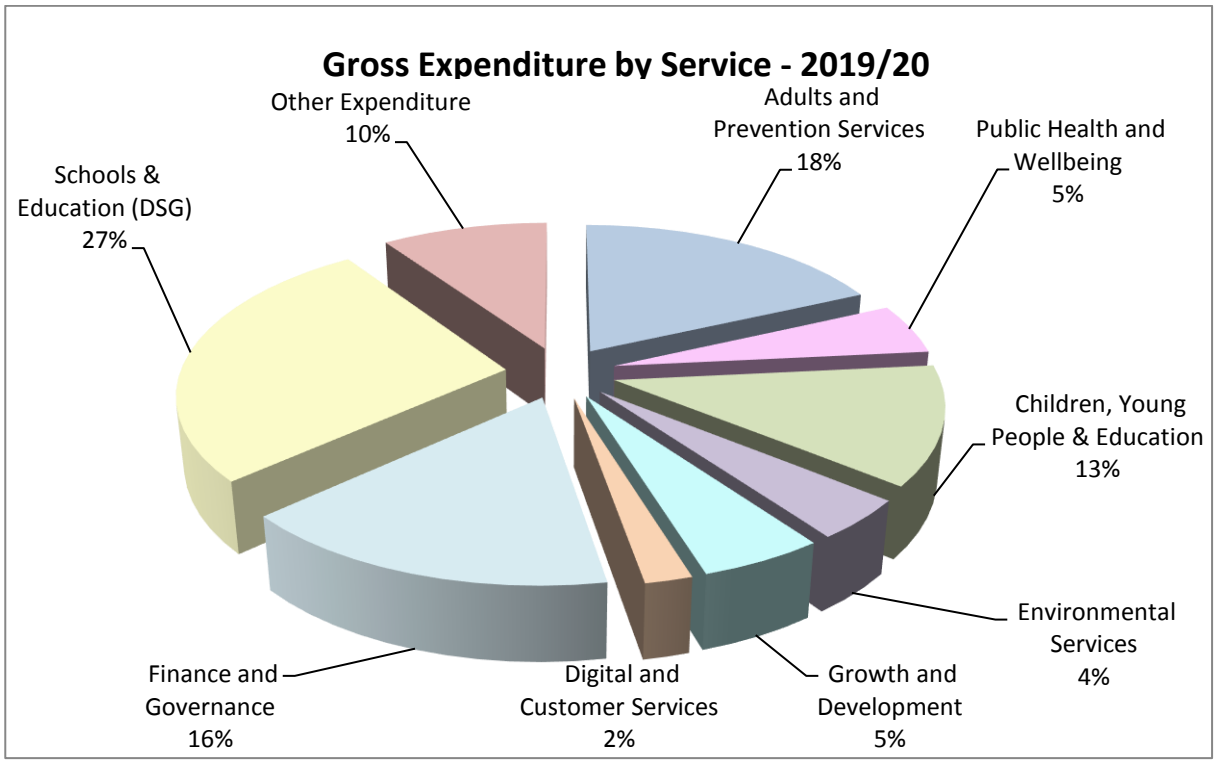


Analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is presented on the basis of how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio controllable budgets. The Expenditure and Funding Analysis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

1) explains the differences between the revenue outturn figures above and financial performance reported on the basis of proper accounting practices within the Comprehensive Income and Expenditure Statement.

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





Capital Expenditure

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

- Buying or selling land or property
- Building new property

- Purchasing plant or equipment
- Significantly enhancing the value of our existing property
- Providing loans and / or grants to others for the above
- Service and commercial investments made for their contribution toward service delivery objectives

The Council's Capital Programme for the period 2019-2022 was agreed at Finance Council on 25th February 2019.

The approved portfolio capital programme for 2019/20 was £30.618 million although additional approvals in year resulted in a revised programme of £28.941 million. Actual expenditure was £26.136 million which is 90.3% of the revised programme.

	Approved Programme £000	Revised Programme £000	Actual £000	Variation from Revised £000
Capital Expenditure				
Adults and prevention services	1,504	2,214	1,941	(273)
Public Health and wellbeing	0	1,195	1,145	(50)
Children, young people and education	1,765	5,915	2,387	(3,528)
Environmental services	0	143	106	(37)
Growth and development	22,767	17,242	18,672	1,430
Digital and customer services	1,668	1,467	1,403	(64)
Finance and governance	2,914	765	482	(283)
Total capital expenditure	**30,618**	**28,941**	**26,136**	**(2,805)**
Resources				
Unsupported borrowing	(12,847)	(10,166)	(11,791)	(1,625)
Contributions from revenue	(300)	(1,274)	(1,073)	201
Government grants	(9,893)	(13,945)	(10,076)	3,869
External contributions	(7,578)	(3,556)	(3,196)	360
Total resources	**(30,618)**	**(28,941)**	**(26,136)**	**2,805**

The total variation at outturn compared to the last report approved by Executive Board is £2.805 million, of which the main components are:

- £3.528 million in relation to the schools capital programme, the majority of which has not yet been allocated to specific schemes and will be carried forward and utilised in 2020/21.
- Growth Deal 3 South East Blackburn – approval was received to increase the scheme by an additional £2.579 million in 2019/20 (and a further £2.181 million in 2020/21).
- A number of schemes were delayed, some due to the COVID-19 pandemic, resulting in them being re-profiled and budgets being carried forward into 2020/21

An overspend on the Darwen Market Square scheme of £0.526 million had been reported in the Quarter 3 Capital Monitoring report, and the additional costs were largely included in the Revised Programme position above. These related to the demolition of the 3 day market; design and project management fees; changes in paving materials due to quarry closure; design changes; replacement of heritage railings; and other highways works. In addition, urgent works to the Market Hall and Annexe to accommodate both relocated and new traders, and creation of a new entrance for the Annexe contributed to the additional spend. Funding from the Local Transport Plan (LTP) and Developers' (S106) contributions were made available to finance the additional cost, with the remaining £466,000 being met from borrowing.

The major schemes in 2019/20 are listed below together with the sources of financing.

Capital Expenditure	£000
Adults and prevention services	
Disabled facilities grants	1,788
Telecare project	97
Public health and wellbeing	
Witton 3G pitches	1,122
Children, young people and education	
Disabled facilities grants	106
St Barnabas and St Pauls	474
Newfield School ASD	664
Audley Junior - Roofing Works	447
Griffin Park kitchen	154
Meadowhead Infants external works and lighting	121
Environmental services	
Land remediation scheme	80
Growth and development	
Local Transport Plan	2,344
National Productivity Investment Fund - Fabric Borders	1,556
Growth Deal 3 (Pennine Gateways)	6,395
Darwen East Corridor Development	308
Acquisition of Blackamoor Inn	155
Reel Cinema	5,838
Darwen Market Square	678
Blakey Moor	719
Digital and customer services	
Corporate ICT Schemes	1,403
Finance and governance	
Corporate Accommodation Strategy Phase 2	390
Other schemes	1,297
Total	**26,136**

Capital Financing	£000
Unsupported borrowing	(11,791)
Contributions from revenue	(1,073)
Government grants and external contributions	(13,272)
Total	**(26,136)**

Treasury Management

During 2019/20, the Council's investment balances averaged around £27 million, generally ranging between £15 million and £40 million, apart from a spike from December to March, as the Council took additional short-term borrowing to fund the advance pension prepayment made in April 2020. Investments were generally, either kept on call or for relatively short durations, resulting in low returns. Interest rates on investments fell significantly in March 2020, following the Bank of England Bank Rate cuts, to exceptionally low rates, which are likely to remain for the near future. Interest earned was around £196,000, at an average rate of 0.69%.

Excluding the nominal debt associated with schools Private Finance Initiative (PFI) schemes, the Council's long term debt fell from £156 million to £150 million, with a further £84 million in short-term loans at the end of the year (increased from £41 million a year ago) taking the closing total to £234 million. Interest on financing this debt cost the Council approximately £6.1 million (up from £5.9 million in 2018/19), with another £0.3 million interest cost on the £14.1 million of debt managed on the Council's behalf by Lancashire County Council.

Excluding the schools PFI element, the Council's Capital Financing Requirement (CFR) - the long-term borrowing need to cover capital spending not financed from other sources – rose from £228 million to £231 million. The Council's long-term debt was temporarily £3 million above that CFR position at year end. The Council has continued to use its overall cash position, and cheaper short-term borrowing, to make significant savings in borrowing costs. Interest costs are expected to remain low in the near future, but some increase in the cost of borrowing may arise in future years, adding to budget pressures.

The Council has continued to benefit from lower MRP (Minimum Revenue Provision for debt repayment) following its decision to review its MRP Policy three years ago, with actual MRP costs of £6.5 million (similar to 2018/19, and down from £8.7 million in 2015/16).

Pension Fund Liability

The pension fund liability at 31 March 2020 as estimated by the fund actuary was £253.1 million compared to £269.2 million at 31 March 2019. This liability represents the underlying commitments that the Council has to pay retirement benefits. The variation between years was due to changing assumptions by the actuary. The liability represents the value at a point in time, and as the fund assets are mainly invested in equities and bonds the value of these and, therefore, the pension liability can vary as market values change.

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

CONTENT OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts summarises the Council's transactions for the financial year 2019/20 and its position at the year end of 31 March 2020. It has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting (the Code) which is based on International Financial Reporting Standards (IFRS).

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

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

CORE FINANCIAL STATEMENTS

The accounts consist of the following core financial statements supported by explanatory notes and the accounting policies applied by the Council in preparing and presenting those financial statements. An explanation of the purpose of each of the statements is given below.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis (Note 1).

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other "unusable reserves". It also shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The *Net (increase) / decrease* line shows the true statutory General Fund Balance movements in the year following those adjustments.

Balance Sheet

The Balance Sheet shows the value as at 31 March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

- **Usable reserves** – those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use(for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- **Unusable reserves** – these are not able to be used to provide services, and include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line *Adjustments between accounting basis and funding basis under regulations.*

Cash Flow Statement

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

- The amount of net cash flows arising from **operating activities** is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.
- **Investing activities** represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.
- Cash flows arising from **financing activities** are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Financial Statements

These notes are fundamentally important in the presentation of a true and fair view, and have three significant roles:

- presenting information about the **basis of preparation** of financial statements and the **specific accounting policies** used
- disclosing the **information required by the Code** that is not presented elsewhere in the financial statements – most commonly this will entail notes breaking down lines presented on the face of the financial statements into their significant components (e.g. sub-classifications of property, plant and equipment)
- providing **information that is relevant to an understanding of the financial statements in general** – this will apply to information that is material in a qualitative sense but not material enough in a quantitative sense to justify disclosure on the face of any of the statements (e.g. transactions with related parties).

SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Statement and Notes

The Collection Fund Statement reflects the statutory requirement contained in Section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR).

There is no requirement for a separate Collection Fund Balance Sheet. Instead, Collection Fund balances are distributed across the Balance Sheets of the billing authority, the government and precepting authorities according to the provisions of the Code.

ACCOUNTING POLICIES

Accounting policies are the specific principles, conventions, rule and practices applied by the Council in preparing and presenting its financial statements. Accounting policies should focus on recognition, measurement and presentation in line with the requirements of the Code, as follows:

- Recognition – the process for recording a transaction in the Balance Sheet or the Comprehensive Income and Expenditure Statement.
- Measurement – the quantification in monetary terms of the amounts at which assets, liabilities, income, expenditure and reserves are reported.
- Presentation – the process for effectively communicating information on assets, liabilities, income, expenditure and reserves in the financial statements and the disclosures.

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

STATEMENT OF RESPONSIBILITIES

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

The Council's responsibilities

The Council is required to:

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

The Director of Finance's responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA*)* Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

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

The Director of Finance has also:

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

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2020.

L Mattinson
Director of Finance
Blackburn with Darwen Borough Council
Xx th January 2021

Approval of Accounts

INDEPENDENT AUDITORS' REPORT

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

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19 (restated)				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
73,830	(21,712)	52,118	Adult and prevention services	76,989	(24,862)	52,127
21,508	(20,815)	693	Public health and wellbeing	22,265	(20,789)	1,476
48,931	(5,290)	43,641	Children, young people and education	52,187	(4,983)	47,204
17,732	(6,551)	11,181	Environmental services	17,802	(6,636)	11,166
21,976	(7,810)	14,166	Growth and development	22,156	(7,648)	14,508
8,210	(678)	7,532	Digital and customer services	8,424	(828)	7,596
67,211	(50,735)	16,476	Finance and governance	68,142	(42,847)	25,295
117,063	(120,475)	(3,412)	Schools and education (DSG)	114,587	(117,552)	(2,965)
376,461	**(234,066)**	**142,395**	**Cost of Services**	**382,552**	**(226,145)**	**156,407**
		(203)	Other operating expenditure (Note 4)			21,334
		16,331	Financing and investment income and expenditure (Note 5)			16,579
		(146,262)	Taxation and non-specific grant income (Note 6)			(153,995)
		12,261	**(Surplus)/deficit on provision of services**			**40,325**
		(1,420)	(Surplus)/deficit on revaluation of non-current assets (Note 30)			(15,474)
		(2,854)	Re-measurement of the net defined benefit pension liability (Note 31)			(42,461)
		(4,274)	**Other comprehensive income and expenditure**			**(57,935)**
		7,987	**Total comprehensive income and expenditure**			**(17,610)**

The 2018/19 comparative figures above have been restated to reflect changes in portfolios during 2019/20, as detailed in the table below:

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Statement of Accounts 2018/19					Statement of Accounts 2019/20	
	2018/19 Net Expenditure	**Net portfolio change**			**2018/19 Net Expenditure (restated)**	
	£000	**£000**	**£000**	**£000**	**£000**	
Health and adult social care	45,247	6,871			52,118	Adult and prevention services
		693			693	Public health and wellbeing
Children, young people and education	43,666	(25)			43,641	Children, young people and education
Environment	11,026	155			11,181	Environmental services
Leisure and culture	5,475	(5,475)			0	
Neighbourhood and prevention services	2,173	(2,173)			0	
Regeneration	14,230	(64)			14,166	Growth and development
Resources	23,968	(16,436)			7,532	Digital and customer services
		16,476			16,476	Finance and governance
Schools and education (DSG)	(3,390)	(22)			(3,412)	Schools and education (DSG)
	142,395	**0**			**142,395**	

MOVEMENT IN RESERVES STATEMENT

	General Fund (b) £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves (Note 30) £000	Unusable Reserves (Note 30) £000	Total Reserves £000
Balance at 31 March 2018	**(33,956)**	**0**	**(7,050)**	**(41,006)**	**101,479**	**60,473**
Total comprehensive income and expenditure (a)	12,261	0	0	12,261	(4,274)	7,987
Adjustments between accounting basis and funding basis under regulations (Note 3)	(11,231)	(250)	121	(11,360)	11,360	**0**
Net (increase)/decrease in year	**1,030**	**(250)**	**121**	**901**	**7,086**	**7,987**
Balance at 31 March 2019	**(32,926)**	**(250)**	**(6,929)**	**(40,105)**	**108,565**	**68,460**
Total comprehensive income and expenditure (a)	40,325	0	0	40,325	(57,935)	(17,610)
Adjustments between accounting basis and funding basis under regulations (Note 3)	(43,203)	250	1,086	(41,867)	41,867	**0**
Net (increase)/decrease in year	**(2,878)**	**250**	**1,086**	**(1,542)**	**(16,068)**	**(17,610)**
Balance at 31 March 2020	**(35,804)**	**0**	**(5,843)**	**(41,647)**	**92,497**	**50,850**

a) Total Comprehensive Income and Expenditure from the Comprehensive Income and Expenditure Statement.

b) The General Fund column amalgamates the Council's Earmarked and Unallocated reserves (Note 30).

BALANCE SHEET

31 March 2019 £000		Note	31 March 2020 £000
412,891	Property, plant and equipment	13	415,536
19,444	Heritage assets	16	19,444
57	Investment properties	17	50
1,562	Intangible assets	18	1,212
1,262	Long term investments	19	1,252
27,621	Long term debtors	20	27,652
462,837	**Long term assets**		**465,146**
6,163	Short term investments	26	38,045
356	Inventories	21	275
20,579	Short term debtors	22	21,078
25,634	Cash and cash equivalents	23	27,099
52,732	**Current assets**		**86,497**
(616)	Bank overdraft	23	(1,899)
(63,321)	Short term borrowing	26	(97,079)
(35,410)	Short term creditors	24	(34,213)
(1,766)	Grants received in advance		(115)
(101,113)	**Current liabilities**		**(133,306)**
(3,052)	Provisions	25	(2,547)
(137,050)	Long term borrowing	26	(137,815)
(342,814)	Other long term liabilities	27	(328,825)
(482,916)	**Long term liabilities**		**(469,187)**
(68,460)	**Net assets**		**(50,850)**
(40,105)	Usable reserves	30	(41,647)
108,565	Unusable reserves	30	92,497
68,460	**Total reserves**		**50,850**

CASH FLOW STATEMENT

2018/19 £000		Note	2019/20 £000
(12,261)	Net surplus/(deficit) on the provision of services		(40,325)
37,986	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	64,859
(15,952)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	(14,292)
9,773	**Net cash flows from operating activities**		**10,242**
11,219	Investing activities	32	(42,594)
(14,629)	Financing activities	32	32,534
6,363	**Net increase/(decrease) in cash or cash equivalents**		**182**
18,655	Cash and cash equivalents at the beginning of the reporting period		25,018
25,018	**Cash and cash equivalents at the end of the reporting period**		**25,200**

1 EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's portfolios. Income and expenditure accounted for under generally accepted accounting practices are presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19 (restated)				2019/20		
Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the Funding and Accounting Basis (Analysis below) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the Funding and Accounting Basis (Analysis below) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
49,012	3,106	52,118	Adults and Prevention Services	49,523	2,604	52,127
2,332	(1,639)	693	Public Health and Wellbeing	1,829	(353)	1,476
31,301	12,340	43,641	Children, young people and education	34,615	12,589	47,204
8,783	2,398	11,181	Environmental services	8,619	2,547	11,166
6,654	7,512	14,166	Growth and Development	6,312	8,196	14,508
5,383	2,149	7,532	Digital and Customer Services	5,361	2,235	7,596
11,193	5,283	16,476	Finance and Governance	10,650	14,645	25,295
(602)	(2,810)	(3,412)	Schools and Education (DSG)	2,088	(5,053)	(2,965)
114,056	**28,339**	**142,395**	**Cost of Services**	**118,997**	**37,410**	**156,407**
(113,026)	(17,108)	(130,134)	Other income and expenditure	(121,875)	5,793	(116,082)
1,030	**11,231**	**12,261**	**(Surplus)/deficit**	**(2,878)**	**43,203**	**40,325**

(33,956)			**Opening General Fund Balance at 1 April**	**(32,926)**		
1,030			**(Surplus)/deficit**	(2,878)		
(32,926)			**Closing General Fund Balance at 31 March**	**(35,804)**		

The 2018/19 comparative figures above have been restated to reflect changes in portfolios during 2019/20. Further details are included below the Comprehensive Income and Expenditure Statement

2019/20 Adjustments between the Funding and Accounting Basis	Adjustments for Capital Purposes (Note 1a) £000	Net change for the Pensions adjustments (Note 1 b) £000	Other Differences (Note 1 c) £000	**Total Adjustments £000**
Adults and Prevention Services	(6)	1,723	887	2,604
Public Health and Wellbeing	2,213	718	(3,284)	(353)
Children, young people and education	3,109	2,658	6,822	12,589
Environmental services	333	925	1,289	2,547
Growth and Development	6,982	936	278	8,196
Digital and Customer Services	1,023	658	554	2, 235
Finance and Governance	718	11,961	1,966	14,645
Schools and Education (DSG)	0	2,886	(7,939)	(5,053)
Net Cost of Services	**14,372**	**22,465**	**573**	**37,410**
Other expenditure and income from the Expenditure and Funding Analysis	3,299	3,905	(1,411)	5,793
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**17,671**	**26,370**	**(838)**	**43,203**

2018/19 (restated) Adjustments between the Funding and Accounting Basis	Adjustments for Capital Purposes (Note 1a) £000	Net change for the Pensions adjustments (Note 1 b) £000	Other Differences (Note 1 c) £000	**Total Adjustments £000**
Adults and Prevention Services	443	1,415	1,248	3,106
Public Health and Wellbeing	978	785	(3,402)	(1,639)
Children, young people and education	4,567	2,255	5,518	12,340
Environment	539	781	1,078	2,398
Growth and Development	6,694	656	162	7,512
Digital and Customer Services	1,559	533	57	2,149
Finance and Governance	2, 045	1,090	2,148	5,283
Schools and Education (DSG)	0	2,466	(5,276)	(2,810)
Net Cost of Services	**16,825**	**9,981**	**1,533**	**28,339**
Other expenditure and income from the Expenditure and Funding Analysis	(18,972)	3,816	(1,952)	(17,108)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(2,147)**	**13,797**	**(419)**	**11,231**

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

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

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

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

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

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

2 EXPENDITURE AND INCOME ANALYSED BY NATURE

2018/19				2019/20		
Net Cost of Services	Other expenditure and income	Total	Expenditure/Income	Net Cost of Services	Other expenditure and income	Total
£000	£000	£000		£000	£000	£000
			Expenditure			
157,360	0	157,360	Employee benefits expenses	168,025	0	168,025
203,573	0	203,573	Other services expenses	201,452	0	201,452
15,528	23	15,551	Depreciation, amortisation and impairment	13,075	7	13,082
0	19,186	19,186	Interest payments and other similar charges	0	19,270	19,270
0	248	248	Precepts and levies	0	248	248
0	(451)	(451)	Gain or loss on disposal of non-current assets	0	21,086	21,086
376,461	19,006	395,467	Total expenditure	382,552	40,611	423,163
			Income			
(39,592)	(6)	(39,598)	Fees, charges and other service income	(39,269)	(6)	(39,275)
0	(2,872)	(2,872)	Interest and investment income	0	(2,692)	(2,692)
0	(71,063)	(71,063)	Income from Council Tax and Non-Domestic Rates	0	(84,744)	(84,744)
(194,474)	(75,199)	(269,673)	Government grants and other contributions	(186,876)	(69,251)	(256,127)
(234,066)	(149,140)	(383,206)	Total income	(226,145)	(156,693)	(382,838)
142,395	**(130,134)**	**12,261**	**Surplus or Deficit on the Provision of Services**	**156,407**	**(116,082)**	**40,325**

3 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

Adjustments in 2019/20	Usable Reserves			Unusable Reserves
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	£000
Depreciation, impairment and revaluation losses of non-current assets (charged to the surplus or deficit on the provision of services)	(12,562)	0	0	12,562
Movements in the fair value of investment properties	(7)	0	0	7
Amortisation of intangible assets	(513)	0	0	513
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	12,186	0	(3,036)	(9,150)
Revenue expenditure funded from capital under statute (REFCUS)	(3,288)	0	0	3,288
Net gain or (loss) on sale or de-recognition of non-current assets	(21,086)	(1,866)	0	22,952
Statutory provision for repayment of debt	6,526	0	0	(6,526)
Capital expenditure charged to the General Fund balance	1,073	0	0	(1,073)
Use of the capital receipts reserve - set aside to reduce the net indebtedness of the Council	0	2,116	0	(2,116)
Use of grants and contributions received in prior year to finance new capital expenditure	0	0	4,122	(4,122)
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash	(2)	0	0	2
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	58	0	0	(58)
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	(26,370)	0	0	26,370
Amount by which council tax income and non-domestic rate income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	634	0	0	(634)
Amount by which officer remuneration calculated in accordance with the Code (i.e. including an accrual for holiday pay) is different from amounts payable in the year in accordance with relevant statutory provisions	148	0	0	(148)
Total adjustments	**(43,203)**	**250**	**1,086**	**41,867**

Comparative adjustments in 2018/19	Usable Reserves			Unusable Reserves
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	£000
Depreciation, impairment and revaluation losses of non-current assets (charged to the surplus or deficit on the provision of services)	(14,670)	0	0	14,670
Movements in the fair value of investment properties	(23)	0	0	23
Amortisation of intangible assets	(858)	0	0	858
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	13,000	0	(3,241)	(9,759)
Revenue expenditure funded from capital under statute (REFCUS)	(2,605)	0	0	2,605
Net gain or (loss) on sale or de-recognition of non-current assets	451	(2,962)	0	2,511
Statutory provision for repayment of debt	6,163	0	0	(6,163)
Capital expenditure charged to the General Fund balance	689	0	0	(689)
Use of the capital receipts reserve - set aside to reduce the net indebtedness of the Council	0	2,712	0	(2,712)
Use of grants and contributions received in prior year to finance new capital expenditure	0	0	3,362	(3,362)
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash	(1)	0	0	1
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	57	0	0	(57)
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	(13,797)	0	0	13,797
Amount by which council tax income and non-domestic rate income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	1,173	0	0	(1,173)
Amount by which officer remuneration calculated in accordance with the Code (i.e. including an accrual for holiday pay) is different from amounts payable in the year in accordance with relevant statutory provisions	(810)	0	0	810
Total adjustments	**(11,231)**	**(250)**	**121**	**11,360**

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

4 OTHER OPERATING EXPENDITURE

2018/19 £000		2019/20 £000
184	Parish council funding	183
64	Levies	65
(451)	(Gains)/losses on the disposal of non-current assets	21,086
(203)	**Total**	**21,334**

5 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2018/19 £000		2019/20 £000
12,473	Interest and other similar charges	12,468
6,713	Pensions net interest and administration costs	6,802
(2,872)	Interest receivable and similar income	(2,692)
17	Income and expenditure in relation to investment properties and changes in their fair value	1
16,331	**Total**	**16,579**

6 TAXATION AND NON-SPECIFIC GRANT INCOME

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

2018/19 £000		2019/20 £000
(63,506)	Non-ring fenced Government grants	(59,056)
(11,693)	Capital grants and contributions	(10,195)
(75,199)	**Total non-specific grant income**	**(69,251)**
(50,481)	Council tax income	(53,115)
(20,582)	Non-domestic rates income	(31,629)
(146,262)	**Total**	**(153,995)**

For 2019/20 Blackburn with Darwen Council, joined with 13 of the other 14 councils across Lancashire to form a 75% Business Rates Retention (BRR) Pool Pilot. As a condition of the pilot model, Revenue Support Grant (RSG) was foregone in favour of retention of an increase in the level of Business Rates retained locally from 50% to 75%.

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

Non-ring fenced Government grants

2018/19 £000		2019/20 £000
(17,837)	Revenue support grant	0
(23,499)	Top-up grant (business rates retention scheme)	(27,209)
(4,210)	Compensation for loss of business rates income	(6,685)
(1,228)	New Homes Bonus grant	(941)
(768)	Housing Benefits and Local Council Tax Support administration grant	(707)
(8,471)	Private finance initiative (PFI) revenue grant	(8,471)
(5,901)	Improved Better Care Fund	(7,339)
(1,242)	Social Care grant	(2,070)
0	COVID-19 Support grant	(5,212)
(350)	Other	(422)
(63,506)	**Total**	**(59,056)**

Capital grants and contributions

2018/19 £000		2019/20 £000
(1,540)	Education capital	(1,546)
(5,111)	Transport	(4,489)
(688)	Other Government grants	(165)
(4,354)	Other contributions	(3,995)
(11,693)	**Total**	**(10,195)**

7 GRANT INCOME AND CONTRIBUTIONS CREDITED TO COST OF SERVICES

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

2018/19 £000		2019/20 £000
(103,614)	Dedicated schools grant	(100,091)
(6,530)	Pupil premium grant	(6,233)
(14,827)	Public health grant	(14,435)
(44,009)	Rent allowances / Rent rebate subsidy and Discretionary housing payments (DHP)	(37,677)
(10,510)	Other government grants	(14,047)
(1,825)	Contributions from other local authorities	(1,579)
(7,793)	Contributions from other public sector bodies	(6,716)
(4,059)	Other contributions	(4,107)
(1,307)	Funding of REFCUS expenditure from grants and contributions	(1,991)
(194,474)	**Total**	**(186,876)**

Dedicated Schools Grant

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

The Schools Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2018/19 and 2019/20 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2018/19 before academy and high needs recoupment			**(154,008)**
Academy and high needs figure recouped for 2018/19			**50,394**
Total DSG after academy and high needs recoupment for 2018/19			**(103,614)**
Brought forward from 2017/18			**(8,731)**
Final budgeted distribution for 2018/19	**(28,424)**	**(83,921)**	**(112,345)**
Actual central expenditure relating to DSG	21,234	0	**21,234**

Actual ISB deployed to schools	0	84,118	**84,118**
Carry forward to 2019/20	**(7,190)**	**197**	**(6,993)**
Final DSG for 2019/20 before academy and high needs recoupment			**(156,705)**
Academy and high needs figure recouped for 2019/20			**56,614**
Total DSG after academy and high needs recoupment for 2019/20			**(100,091)**
Brought forward from 2018/19			**(6,993)**
Agreed initial budgeted distribution in 2019/20	**(40,747)**	**(66,337)**	**(107,084)**
In year adjustments	860	0	860
Final budgeted distribution for 2019/20	**(39,887)**	**(66,337)**	**(106,224)**
Actual central expenditure relating to DSG	36,046	0	**36,046**
Actual ISB deployed to schools	0	66,337	**66,337**
Carry forward to 2020/21	**(3,841)**	**0**	**(3,841)**

8 OFFICERS' REMUNERATION

The Council is required to disclose remuneration for all employees earning over £50,000 with additional disclosures for senior officers. The number of other employees whose remuneration, excluding pension contributions, exceeded £50,000 during the year is set out in the following tables. The total of 184 includes 112 teachers (170 including 110 teachers in 2018/19).

No of Employees 2018/19	Remuneration Banding	No of Employees 2019/20
56	50,000 to 54,999	61
48	55,000 to 59,999	45
30	60,000 to 64,999	34
23	65,000 to 69,999	21
4	70,000 to 74,999	12
3	75,000 to 79,999	4
1	80,000 to 84,999	2
0	85,000 to 89,999	1
0	90,000 to 94,999	0
2	95,000 to 99,999	0
0	100,000 to 104,999	1
1	105,000 to 109,999	2
1	110,000 to 114,999	1
1	115,000 to 119,999	0
170	**Total**	**184**

The following tables provide an analysis by job title of the remuneration and employer's pension scheme contributions in respect of senior officers, which includes the Council's Chief Executive and all Chief Officers who report directly to the Chief Executive, for 2019/20 and 2018/19. These posts are in addition to those included in the previous table.

2019/20

Post holder	Note	Salary, Fees and Allowances £000	Benefits in Kind £000	Compensation for Loss of Office £000	Total Remuneration excluding Pension Contributions £000	Pension Contribution £000	Total Remuneration including Pension Contribution £000
Chief Executive – Head of Paid Service – Denise Park	1	155	0	0	155	21	**176**
Former Chief Executive - Harry Catherall	2	13	0	130	143	2	**145**
Director of Adults & Prevention		112	0	0	112	17	**129**
Director of Public Health & Wellbeing		115	0	0	115	17	**132**
Director of Children's Services & Education		113	0	0	113	17	**130**
Director of Environment & Operations		98	0	0	98	14	**112**
Director of Finance & Customer Services		95	1	0	96	14	**110**
Director of HR, Legal & Governance	1	103	0	0	103	15	**118**
Director of Digital & Business Change		94	0	0	94	14	**108**
Director of Growth & Development		98	0	0	98	14	**112**
Growth Programme Director		114	1	0	115	17	**132**

1. The government determines and funds the election fees for Returning Officers that are related to election duties for National, European and Police and Crime Commissioner Elections and these are subject to full reimbursement and paid to officers as appropriate. The fees for Local Elections are based on a County wide formula.
2. The former Chief Executive left the Council's employment with effect from 30 April 2019.

2018/19

Post holder	Note	Salary, Fees and Allowances £000	Benefits in Kind £000	Compensation for Loss of Office £000	Total Remuneration excluding Pension Contributions £000	Pension Contribution £000	Total Remuneration including Pension Contribution £000
Chief Executive – Head of Paid Service - Harry Catherall	1	159	0	0	159	21	**180**
Deputy Chief Executive – Denise Park	1	133	0	0	133	18	**151**
Director of Adults & Prevention		104	0	0	104	14	**118**
Director of Public Health & Wellbeing		119	0	0	119	17	**136**
Director of Children's Services	2	37	0	0	37	5	**42**
Director of Children's Services & Education	2	76	0	0	76	10	**86**
Director of Environment & Operations		96	0	0	96	13	**109**
Director of Finance & Customer Services		94	0	0	94	13	**107**
Director of HR, Legal & Corporate Services	1	96	0	0	96	12	**108**
Director of Digital & Business Change	3	72	0	0	72	10	**82**
Director of Growth & Development	4	24	0	0	24	3	**27**

1. The government determines and funds the election fees for Returning Officers that are related to election duties for National, European and Police and Crime Commissioner Elections and these are subject to full reimbursement and paid to officers as appropriate. The fees for Local Elections are based on a County wide formula
2. The Director of Children's Services left the Council's employment with effect from 31 August 2018. A new Director of Children's Services & Education commenced employment with the Council on 23 July 2018.
3. The Director of Digital & Business Change commenced the Council's employment with effect from 11 June 2018.
4. The Director of Growth & Development commenced the Council's employment with effect from 2 January 2019.

Termination benefits

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

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

	No. Compulsory Redundancies		No. Other Exit Packages		Total Number		Total Cost £000	
Banding	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**
0 to 20,000	42	7	77	56	119	63	578	360
20,001 to 40,000	3	2	5	2	8	4	226	86
40,001 to 60,000	1	0	1	0	2	0	88	0
60,001 to 80,000	0	0	0	0	0	0	0	0
80,001 to 100,000	1	0	1	0	2	0	187	0
100,001 to 150,000	0	0	1	0	1	0	130	0
Total	**47**	**9**	**85**	**58**	**132**	**67**	**1,209**	**446**

The total cost of termination benefits for 2019/20 shown in the table above includes £24,121 for exit packages that have been charged to the Council's Comprehensive Income and Expenditure Account but relate to individuals that left prior to 31 March 2019.

9 MEMBERS' ALLOWANCES

2018/19 £000		2019/20 £000
559	Allowances payable to Members	579
5	Expenses payable to Members	3
564	**Total**	**582**

10 EXTERNAL AUDIT COSTS

The Council incurred the following fees relating to external audit.

2018/19 £000		2019/20 £000
83	Fees incurred with regard to external audit services provided by Grant Thornton	90
14	Fees incurred for the certification of grant claims and returns by Grant Thornton	16
97	**Total**	**106**

11 TRADING OPERATIONS

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

2018/19 £000		2019/20 £000
(1,323)	Turnover	(1,369)
2,263	Expenditure	2,741
940	**(Surplus)/deficit**	**1,372**

12 EVENTS AFTER THE BALANCE SHEET DATE

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

Coronavirus pandemic

As described in the Narrative Report, the direct financial impact to the Council of its response to the coronavirus pandemic will be reflected in the 2020/21 accounts. However, this global event has impacted financial markets in many sectors, resulting in an unprecedented set of circumstances on which to base the various judgements reflected in the 2019/20 accounting statements, including valuations for the Council's property and financial assets, its share of the Pension Fund assets and liabilities, and the valuation of the Pensions Fund's property assets. Further details of the significant estimation uncertainty resulting from the pandemic can be found within the Accounting Policies section on pages 106-107.

McCloud / Sargeant judgement

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed scheme were introduced in 2018, constituted unlawful age discrimination. On 27 June 2019 the Supreme Court refused the government's application for permission to appeal the ruling. On 16 July 2020 consultation documents were published which contained the proposed remedy regarding the McCloud/Sargeant issue for all public sector pension schemes.

In respect of the LGPS Scheme, as the exact form of the remedy was not known, the accounting figures produced by the actuary for the 2019/20 accounts include the estimated additional liabilities arising from the judgement, based on calculations carried out on the individual member data supplied for the 2019 round of actuarial valuations. As Blackburn with Darwen council did not include an estimate of the McCloud liabilities in their accounts in 2018/19, the increase in past service liabilities is shown as a "past service cost" calculated as at 1st April 2019. The current service cost for 2019/20 also includes an allowance for the additional costs which arise from the judgement.

Once the final remedy for McCloud is known, the position will be reviewed. Whilst it is possible that the Fund may require additional contributions from employers at that point in time, based on the Administering Authority's current knowledge and understanding of the likely outcome, it is more likely that contributions will not be reviewed until the next actuarial valuation unless this is a requirement of the final remedy process.

Based on this the consultation is noted as a post balance sheet non-adjusting event within these accounts.

13 PROPERTY, PLANT AND EQUIPMENT

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

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

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

In addition, a review of the potential variance in the Balance Sheet values of the remaining operational land and buildings, not subject to revaluation during the financial year, is done. The review combines the use of national indices to model potential valuation movements over the five year valuation period, with an assessment of local market conditions and how that compares with national trends. The result of the assessment did not require a change in the values used within the Council's Balance Sheet.

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

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

Property, plant and equipment - movements in 2019/20

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets included in property, plant and equipment £000
Cost or valuation								
At 1 April 2019	**248,967**	**30,029**	**171,993**	**7,509**	**11,170**	**12,371**	**482,039**	**23,569**
Additions	2,446	499	2,027	0	24	17,982	22,978	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,059	0	0	0	4,809	0	8,868	0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(2,484)	0	0	0	0	0	(2,484)	0
Derecognition / disposals	(24,036)	(922)	0	0	(569)	0	(25,527)	(20,698)
Assets reclassified	1,468	60	4,962	0	7	(6,840)	(343)	298
Other movements	0	0	0	0	0	(383)	(383)	0
At 31 March 2020	**230,420**	**29,666**	**178,982**	**7,509**	**15,441**	**23,130**	**485,148**	**3,169**
Accumulated depreciation								
At 1 April 2019	**(14,202)**	**(17,253)**	**(37,692)**	**0**	**(1)**	**0**	**(69,148)**	**(4,375)**
Depreciation charge	(4,345)	(1,616)	(5,652)	0	(1)	0	(11,614)	(196)
Depreciation written out to the Revaluation Reserve	6,606	0	0	0	0	0	6,606	0
Depreciation written out to the surplus/deficit on the provision of services	1,536	0	0	0	0	0	1,536	0
Derecognition / disposals	1,840	824	0	0	1	0	2,665	1,402
Assets reclassified	343	0	0	0	0	0	343	0
Other movements	0	0	0	0	0	0	0	0
At 31 March 2020	**(8,222)**	**(18,045)**	**(43,344)**	**0**	**(1)**	**0**	**(69,612)**	**(3,169)**
Net book value								
At 1 April 2019	**234,765**	**12,776**	**134,301**	**7,509**	**11,169**	**12,371**	**412,891**	**19,194**
At 31 March 2020	**222,198**	**11,621**	**135,638**	**7,509**	**15,440**	**23,130**	**415,536**	**0**

Property, plant and equipment - comparative movements in 2018/19

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets included in property, plant and equipment £000
Cost or valuation								
At 1 April 2018	**249,005**	**28,464**	**169,210**	**7,509**	**16,949**	**9,787**	**480,924**	**23,569**
Additions	851	1,457	2,546	0	1	12,601	17,456	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,854	0	0	0	(4,594)	0	260	0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(4,653)	0	0	0	(310)	0	(4,963)	0
Derecognition / disposals	(865)	0	0	0	(1,669)	0	(2,534)	0
Assets reclassified	8,122	108	236	0	793	(10,017)	(758)	0
Other movements	(8,347)	0	1	0	0	0	(8,346)	0
At 31 March 2019	**248,967**	**30,029**	**171,993**	**7,509**	**11,170**	**12,371**	**482,039**	**23,569**
Accumulated depreciation								
At 1 April 2018	**(21,655)**	**(15,204)**	**(32,121)**	**0**	**0**	**0**	**(68,980)**	**(3,973)**
Depreciation charge	(4,306)	(2,049)	(5,570)	0	(1)	0	(11,926)	(402)
Depreciation written out to the Revaluation Reserve	1,160	0	0	0	0	0	1,160	0
Depreciation written out to the surplus/deficit on the provision of services	2,219	0	0	0	0	0	2,219	0
Derecognition / disposals	33	0	0	0	0	0	33	0
Assets reclassified	0	0	0	0	0	0	0	0
Other movements	8,347	0	(1)	0	0	0	8,346	0
At 31 March 2019	**(14,202)**	**(17,253)**	**(37,692)**	**0**	**(1)**	**0**	**(69,148)**	**(4,375)**
Net book value								
At 1 April 2018	**227,350**	**13,260**	**137,089**	**7,509**	**16,949**	**9,787**	**411,944**	**19,596**
At 31 March 2019	**234,765**	**12,776**	**134,301**	**7,509**	**11,169**	**12,371**	**412,891**	**19,194**

Property, plant and equipment revaluations

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infra-structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carried at historical cost	**25**	**29,666**	**178,982**	**7,509**	**0**	**23,130**	**239,312**
Valued at current value (fair value for surplus assets) at:							
2019/2020	87,213	0	0	0	15,441	0	102,654
2018/2019	48,741	0	0	0	0	0	48,741
2017/2018	21,189	0	0	0	0	0	21,189
2016/2017	31,228	0	0	0	0	0	31,228
2015/2016	39,070	0	0	0	0	0	39,070
Total cost or valuation	**227,466**	**29,666**	**178,982**	**7,509**	**15,441**	**23,130**	**482,194**

Revaluation losses / (gains)

For 2019/20, there were no revaluation decreases / (increases) recognised in the surplus or deficit on the in excess of £1 million.

Surplus Assets – Fair Value Hierarchy

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2020 and 2019 are as follows:

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2020
	£000	**£000**	**£000**	**£000**
Residential land	0	14,606	0	14,606
Office units	0	90	0	90
Retail	0	745	0	745
Total	**0**	**15,441**	**0**	**15,441**

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2019
	£000	**£000**	**£000**	**£000**
Residential land	0	10,135	0	10,135
Office units	0	935	0	935
Retail	0	99	0	99
Total	**0**	**11,169**	**0**	**11,169**

Transfers between Levels of the Fair Value Hierarchy

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

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

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

14 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

31 March 2019 £000		31 March 2020 £000
299,860	**Opening capital financing requirement**	**297,594**
	Capital investment	
17,456	Property, plant and equipment	22,978
178	Intangible assets	243
2,275	Revenue expenditure funded from capital under statute	2,905
510	Capital investments / loans	10
20,419	**Total capital investment**	**26,136**
	Sources of finance	
(2,712)	Capital receipts – set aside to reduce net indebtedness	(2,116)
(13,121)	Government grants and other contributions	(13,272)
	Sums set aside from revenue:	
(689)	Direct revenue contributions	(1,073)
(6,163)	Minimum revenue provision (MRP) for debt repayment	(6,526)
297,594	**Closing capital financing requirement**	**300,743**
	Explanation of movement in year	
(2,266)	Increase / (reduction) in underlying need to borrow (unsupported by Government financial assistance)	(3,149)
(2,266)	**Total movement**	**(3,149)**

Capital Commitments

At 31 March 2020 the Council had entered into numerous contracts for the construction or enhancement of property, plant and equipment in 2020/21 or future years. The most significant of these is:

- Blackburn Cinema – an ongoing development in Blackburn town centre comprising a cinema, under croft car parking and terracing - £2.693 million

15 SCHOOLS ASSETS

The accounting treatment of land and buildings in relation to schools is based on the legal framework underlying each type of school. As the Council controls the management and running of community and foundation schools (where the foundation school is subject to a PFI contract), the land and buildings of those schools are included within property, plant and equipment on the Council's Balance Sheet. Whereas, the land and buildings of voluntary aided, voluntary controlled, foundation (not subject to a PFI contract), academy and free schools are owned and controlled by the trustees of the schools or the foundation body and are, therefore, not shown on the Council's Balance Sheet.

Schools on the Council's Balance Sheet

31 March 2019			31 March 2020	
Number of Schools	Value of Land and Buildings £000		Number of Schools	Value of Land and Buildings £000
20	67,196	Community schools (excluding PFI schools)	20	67,944
1	2,230	Foundation schools (excluding PFI schools)	1	2,230
2	19,493	Community and foundation schools subject to PFI contracts	0	0
1	3,772	Pupil referral units (PRU)	1	4,003
24	**92,691**	**Total**	**22**	**74,177**

Schools off the Council's Balance Sheet

2018/19 £000		2019/20 £000
14	Academy	16
0	Foundation	0
5	Free	5
25	Voluntary aided	25
4	Voluntary controlled	4
48	**Total**	**50**

There have been academy conversions during the financial year 2019/20, in relation to the following schools:

- Blackburn Central High School
- Crosshill Special School

The Building Schools for Future programme included the construction and operation of four schools under PFI contracts. Initially, the assets for all four community and foundation schools subject to PFI contracts were shown on the Council's Balance Sheet together with the related liability. Subsequently all four of the schools, Pleckgate, Witton Park and Blackburn Central High Schools, and Crosshill Special School, have converted to academy status. The assets relating to these four schools have been removed from the

Council's Balance Sheet however the PFI liabilities for all PFI schools remain on as the Council is the party to the contract with the PFI operator.

The Council receives grant funding from Central Government to cover the capital cost of the PFI liability. There is a formal agreement with the Academy Trust to cover the shortfall between the full liability and the grant, therefore, there is no change in the nature of the existing liability and hence no adjustments were made in 2019/20. Should there be changes in Government policy or the status or viability of the Academies in the future that impact on how the existing guarantees operate, the accounting policy will be reviewed and amended if necessary. Based on current information and projections of pupil numbers no changes are likely over the short to medium term.

16 HERITAGE ASSETS

Heritage assets are non-current assets held principally for their contribution to knowledge and culture. In particular such assets increase the understanding and appreciation of the Council's history and that of the local area.

	Civic Regalia and Other artefacts £000	Art Collections (including public/street art) £000	Manuscripts and Books £000	Total Heritage Assets £000
Cost or valuation				
At 31 March 2019	**259**	**8,215**	**10,970**	**19,444**
Net gains/(losses) from fair value adjustments	0	0	0	0
At 31 March 2020	**259**	**8,215**	**10,970**	**19,444**

There have been no additions or disposals during the year and the values remain unchanged from 2018/19.

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

Civic regalia and other artefacts

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

Manuscripts and books

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

Art collections

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

17 INVESTMENT PROPERTIES

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

2018/19 £000		2019/20 £000
(6)	Rental income from investment property	(6)
23	Changes in the fair value of investment property	7
17	**Net (gain)/loss**	**1**

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

2018/19 £000		2019/20 £000
80	**Balance at 1 April**	**57**
(23)	Net gains/(losses) from fair value adjustments	(7)
0	Transfer to Property, Plant & Equipment	0
57	**Balance at 31 March**	**50**

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

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

18 INTANGIBLE ASSETS

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

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

2018/19 £000		2019/20 £000
	Gross carrying amount	
2,832	Balance at 1 April	3,438
178	Purchases	243
428	Assets reclassified from assets under construction	0
0	Disposals	(606)
3,438	**Balance at 31 March**	**3,075**
	Accumulated amortisation	
(1,018)	Balance at 1 April	(1,876)
(858)	Amortisation	(513)
0	Disposals	526
0	Other movements in amortisation	0
(1,876)	**Balance at 31 March**	**(1,863)**
	Net carrying amount	
1,814	Balance at 1 April	1,562
1,562	**Balance at 31 March**	**1,212**

19 LONG TERM INVESTMENTS

31 March 2019 £000		31 March 2020 £000
712	Blackburn with Darwen and Bolton Local Education Partnership	702
500	Joint Venture Development Company	500
50	Local Capital Finance Company Plc	50
1,262	**Total**	**1,252**

20 LONG TERM DEBTORS

31 March 2019 £000		31 March 2020 £000
26,275	Shopping centre lease	26,273
957	Nursing/residential property charges	972
363	Loan to Lancashire County Developments Limited	380
10	Car loans to Council employees	0
5	Cycle scheme loans to Council employees	4
10	Property Refurbishment loans	19
1	Other loans	4
27,621	**Total**	**27,652**

21 INVENTORIES

2018/19 £000		2019/20 £000
302	**Balance at 1 April**	**355**
1,236	Purchases	1,119
(1,186)	Recognised as an expense in the year	(1,195)
3	Written off / reversal of prior year write-offs	(4)
355	**Balance at 31 March**	**275**

22 SHORT TERM DEBTORS

31 March 2019 £000		31 March 2020 £000
	Debtors classed as Financial Instruments	
10,526	Trade receivables	12,256
(2,602)	Impairment allowance	(3,622)
7,924		**8,634**
	Debtors not classed as Financial Instruments	
10,624	Council tax	11,890
1,400	Non-domestic rates	2,424
687	Payments in advance	1,855

12,159	Other receivables	9,962
	Impairment allowance:	
(8,474)	Council tax	(9,441)
(901)	Non-domestic rates	(1,606)
(2,840)	Overpaid housing benefit	(2,640)
20,579	**Total**	**21,078**

23 CASH AND CASH EQUIVALENTS

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

31 March 2019 £000		31 March 2020 £000
57	Cash held by the Council	35
6,548	Bank current accounts	7,530
19,029	Short term deposits with banks and building societies	19,534
25,634	**Total**	**27,099**
(616)	Bank overdraft	(1,899)
25,018	**Total**	**25,200**

24 SHORT TERM CREDITORS

31 March 2019 £000		31 March 2020 £000
	Creditors classed as Financial Instruments	
(18,829)	Trade payables	(18,049)
(1,717)	Other payables – PFI arrangement	(1,811)
(20,546)		**(19,860)**
	Creditors not classed as Financial Instruments	
(1,007)	Council tax	(1,231)
(260)	Non-domestic rates	(300)
(2,391)	Receipts in advance	(6,354)
(11,206)	Other payables	(6,468)
(35, 410)	**Total**	**(34, 213)**

25 PROVISIONS

	Non-domestic Rates Appeals £000	Insurance Claims £000	Municipal Mutual Insurance Limited (MMI) £000	Other Provisions £000	Total £000
Balance at 1 April 2019	**(1,673)**	**(655)**	**(324)**	**(400)**	**(3,052)**
Additional provisions made	(561)	(429)	0	0	(990)
Amounts used	1,470	182	4	0	1,656
Unused amounts reversed	0	275	0	400	675
Other adjustment	(836)	0	0	0	(836)
Balance at 31 March 2020	**(1,600)**	**(627)**	**(320)**	**0**	**(2,547)**

Further details of the individual provisions are shown below.

Provision	
Non-domestic rates appeals	The Council, as Billing Authority for the Blackburn with Darwen area, is required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. The total provision is calculated by the Billing Authority on behalf of the major preceptors (Lancashire Combined Fire Authority, Central Government and the Council). The amount appearing in the Balance Sheet has been adjusted to include only the Council's share of the provision. A further adjustment reflects the impact of a change in the Council's share from 49% to 73.5% for 2019/20, due to it joining with 13 of the other 14 councils across Lancashire to form a 75% Business Rates Retention (BRR) Pool Pilot.
insurance claims	Funds are set aside to cover liability claims in respect of highways third party liability, vehicle insurance, employer's liability, public liability and buildings insurance claims which are below the insurance excess and self-insured limit.
Municipal Mutual Insurance Limited (MMI)	Provision in respect of MMI for costs due to be paid under the Scheme of Arrangement for managing the outstanding liabilities resulting from claims being made.
Other Provisions	A provision had been set aside to meet any potential future liabilities in respect of the aftercare costs for closed landfill sites within the Borough for which the Council has responsibility. As resources included in the capital programme to fund ongoing remediation measures are deemed to be sufficient the provision is no longer required.

26 FINANCIAL INSTRUMENTS

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability or entity instrument of another entity. Non-exchange transactions such as those relating to taxes and government grants do not give rise to financial instruments.

Financial assets - balances

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

Amortised cost, comprising:

- Investments, including loans to banks, building societies and other local authorities
- cash in hand and bank current and deposit accounts
- trade receivables for goods and services provided (including leases)

Fair value through profit and loss (FVPL), comprising:

- investments in Money Market Funds, which are shown at fair value as investments with a quoted market price

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

31 March 2019 £000				31 March 2020 £000		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
1,262	6,000	**7,262**	Investments - principal	1,252	38,000	**39,252**
0	163	**163**	Accrued interest on the above	0	45	**45**
1,262	**6,163**	**7,425**	**Total investments**	**1,252**	**38,045**	**39,297**
0	6,069	**6,069**	Cash and cash equivalents - principal	0	5,578	**5,578**
0	2	**2**	Accrued interest on the above	0	0	**0**
0	12,950	**12,950**	Cash and cash equivalents at fair value through profit and loss (FVPL)	0	13,950	**13,950**
0	8	**8**	Accrued interest on the above	0	6	**6**
0	**19,029**	**19,029**	**Total cash and cash equivalents**	**0**	**19,534**	**19,534**
26,275	0	**26,275**	Shopping centre lease long term debtor	26,273	0	**26,273**
1,346	10,526	**11,872**	Other trade receivables	1,379	12,256	**13,635**
0	(2,602)	**(2,602)**	Loss allowance against trade receivables	0	(3,622)	**(3,622)**
27,621	**7,924**	**35,545**	**Total trade receivables**	**27,652**	**8,634**	**36,286**
28,883	**33,116**	**61,999**	**Total financial assets**	**28,904**	**66,213**	**95,117**

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

All of the Council's financial liabilities held during the year are measured at amortised cost, and comprise:

- long-term loans from the Public Works Loan Board (PWLB)
- short-term loans from other local authorities
- bank overdraft
- lease payables, detailed in Note 29
- Private Finance Initiative (PFI) contracts, detailed in Note 28
- trade payables for goods and services received

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

31 March 2019 £000				31 March 2020 £000		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(136,904)	(60,361)	**(197,265)**	Principal sum borrowed	(137,670)	(96,245)	**(233,915)**
0	(2,720)	**(2,720)**	Accrued interest	0	(601)	**(601)**
(147)	(240)	**(387)**	Effective interest rate (EIR) adjustments **	(145)	(233)	**(378)**
(137,051)	**(63,321)**	**(200,372)**	**Total borrowing**	**(137,815)**	**(97,079)**	**(234,894)**
0	(616)	**(616)**	Bank overdraft	0	(1,899)	**(1,899)**
(63,414)	(1,717)	**(65,131)**	PFI arrangements	(61,603)	(1,811)	**(63,414)**
0	(18,829)	**(18,829)**	Trade payables	0	(18,049)	**(18,049)**
(200,465)	**(84,483)**	**(284,948)**	**Total financial liabilities**	**(199,418)**	**(118,838)**	**(318,256)**

** EIR adjustments to market loans with "stepped" interest rates, to average out their cost over the life of the loans. The adjustments made to the carrying values each year impact on the Financial Instruments Adjustments Account (Note 30)

Financial instruments - gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

2018/19					2019/20			
Financial Liabilities at amortised cost £000	**Financial Assets at amortised cost £000**	**Financial Assets at fair value through profit & loss £000**	**Total £000**		**Financial Liabilities at amortised cost £000**	**Financial Assets at amortised cost £000**	**Financial Assets at fair value through profit & loss £000**	**Total £000**
6,230	0	0	6,230	Interest on PFI payments	6,057	0	0	6,057
6,243	0	0	6,243	Interest on loans	6,411	0	0	6,411
12,473	**0**	**0**	**12,473**	**Total expense**	**12,468**	**0**	**0**	**12,468**
0	(1,445)	0	**(1,445)**	Shopping centre lease interest	0	(1,445)	0	**(1,445)**
0	(314)	(42)	**(356)**	Other interest	0	(140)	(92)	**(232)**
0	(1,071)	0	**(1,071)**	Dividend income	0	(1,015)	0	**(1,015)**
0	**(2,830)**	**(42)**	**(2,872)**	**Total income**	**0**	**(2,600)**	**(92)**	**(2,692)**
12,473	**(2,830)**	**(42)**	**9,601**	**Net impact on surplus / deficit on provision of services**	**12,468**	**(2,600)**	**(92)**	**9,776**

Fair value of financial instruments

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For Money Market Fund holdings, included in financial assets, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at of the instrument at 31 March 2020, using the following methods and assumptions:

- Loans taken by the Council, including PWLB loans, have been valued at market rates reflecting local authority credit-worthiness.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a standard commercial model. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of PFI scheme liabilities were prepared by discounting the contractual cash flows (excluding service charges) at the appropriate AA corporate bond yield.
- For the shopping centre lease debtor, the £26.273 million carrying value on the Balance Sheet was based on discounting the anticipated net income stream at the interest rate implicit in the lease. The fair values were prepared by discounting the same income at the long term gilt yield plus a credit risk margin.
- The fair values of other long-term loans and investments were estimated using market rates for similar instruments with similar remaining terms to maturity.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.
- No early repayment or impairment is recognised for any financial instrument.

Fair values are shown in the table below, split by their level in the **fair value hierarchy**:

- **Level 1** – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- **Level 2** – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- **Level 3** – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Fair values were prepared by the Council's treasury advisors. Where no fair values are shown, any differences were immaterial.

31 March 2019 £000			Fair value level		31 March 2020 £000		
Carrying Value £000	Fair Value £000	Difference £000		Financial Assets	Carrying Value £000	Fair Value £000	Difference £000
26,275	53,524	**27,249**	2	Shopping centre lease long term debtor	26,273	71,982	**45,709**
(140,382)	(178,103)	**(37,721)**	2	PWLB loans	(131,652)	(170,694)	**(39,042)**
(18,618)	(27,158)	**(8,540)**	2	Market loans (some with call options)	(18,613)	(27,905)	**(9,292)**
(265)	(265)	**0**	2	Other stock	(265)	(265)	**0**
(41,106)	(41,106)	**0**	2	Short term borrowing	(84,126)	(84,128)	**(2)**
(200,371)	**(246,632)**	**(46,261)**		**Total Borrowing**	**(234,656)**	**(282,992)**	**(48,336)**
(65,130)	(112,202)	**(47,072)**	2	PFI liabilities	(63,414)	(101,844)	**(38,430)**

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

The fair value of the Council's Shopping Centre Lease Debtor is higher than the carrying value due to lower interest rates (compared to the rates for the carrying values).

Risks arising from financial instruments

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

The main risks are:

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

Credit risk

Investments

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

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

- high rated money market funds – instant access (upper limit £5 million per fund)
- credit rated banks and building societies – limits ranging from minimum rating A- (limits £3 million and 4 months) to minimum rating AA (limits £5 million and 9 months)
- the Council's current bank (minimum BBB) or unrated building societies (maximum £1 million and 4 months), both subject to additional credit-worthiness assessments
- deposits with other local authorities (limits £5 million and 364 days)
- deposits with the Government's Debt Management Office (no limit)

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

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

31 March 2019 £000	Investment Portfolio	31 March 2020 £000
	Short term investments	
0	Debt Management Office	0
5,000	Other local authorities	38,000
0	A rated banks/building societies	0
1,000	Low rated building societies	0000
6,000	**Total short term investments**	**38,000**
	Short term deposits with banks and building societies	
12,950	AAA rated Money Market Funds	13,950
2,500	AA- rated bank	0
2,975	A+ rated bank	3,001
0	A rated bank	0
50	Council's own current account bank	2,502
18,475	**Total short term deposits**	**19,453**

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

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

Trade receivables

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

31 March 2019 £000			31 March 2020 £000	
Value of debt	Provision		Value of debt	Provision
10,526	(2,602)	Trade receivables	12,256	(3,662)

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

31 March 2019 £000	Aged of Debt	31 March 2020 £000
5,892	Less than 3 months	7,228
1,301	3 – 12 months	1,195
1,673	1 to 2 years	1,300
1,660	Over 2 years	2,533
10,526	**Total**	**12,256**

Liquidity risk

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

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

The maturity analysis of principal sums borrowed is as follows:

31 March 2019 £000		31 March 2020 £000
(63,229)	Under 1 year	(97,079)
(63,229)	**Total short term borrowing**	**(97,079)**
(4,234)	Maturing in 1 to 2 years	(3,890)
(10,804)	Maturing in 3 to 5 years	(22,098)
(37,264)	Maturing in 6 to 10 years	(33,952)
(84,841)	Maturing in more than 10 years	(77,875)
(137,143)	**Total long term borrowing**	**(137,815)**
(200,372)	**Total borrowing**	**(234,894)**

The Council has £13 million of "Lender's Option, Borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council would then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, it is likely that these options will not be taken up, but the above table assumes they may be taken at the first call option date.

Market risk

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

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

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

In 2019/20, if interest rates had been 1% higher with all other variables held constant the financial effect would have been:

	2019/20 £000
Interest gained on investments	(285)
Increased cost of borrowing	424
Impact on Comprehensive Income and Expenditure Statement	**139**

A 1% change in interest rates would also impact on the fair value of fixed rate investments and borrowings, which can be considered by varying the discount rates used in their estimation. In the case of the fair values of investments this would remain relatively immaterial. It would be more significant for the fair value of borrowings where a 1% increase in rates would decrease the fair value by over £32.5 million. A decrease in rates would correspondingly increase the fair value of borrowings. This would not impact on either surplus or deficit on the provision of services or the Movement in Reserves Statement.

27 OTHER LONG TERM LIABILITIES

31 March 2019 £000		31 March 2020 £000
(264,662)	Pension scheme liability *	(253,074)
(14,738)	Council's share of debt administered by Lancashire County Council under local Government reorganisation regulations	(14,148)
(63,414)	Building schools for the future PFI liability	(61,603)
(342,814)	**Total**	**(328,825)**

28 PRIVATE FINANCE INITIATIVE (PFI)

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

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

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

All four of those schools have subsequently converted to academy status, and the assets are no longer recognised in the Council's Balance Sheet, although the PFI liability continues to be reported as the obligation to pay remains with the Council.

During recent years, the Council has been approached by the PFI Company's financial advisers to consider a proposal for the refinancing of Blackburn with Darwen's senior debt within the PFI deals of the two PFI agreements. The refinancing in relation to the Phase 1 and Phase 2 agreements was completed during 2018/19 and 2019/20 respectively and has resulted in the Council receiving a share of the refinancing gains.

The Council makes an agreed annual payment which is increased by inflation each year. Payments remaining to be made under the PFI contract at 31 March 2020 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total

	£000	£000	£000	£000
Phase 1 - Pleckgate school				
Payment in 2020/21	(928)	(617)	(2,459)	(4,004)
Payment within 2 to 5 years	(3,377)	(3,503)	(9,135)	(16,015)
Payment within 6 to 10 years	(4,766)	(6,158)	(9,095)	(20,019)
Payment within 11 to 15 years	(5,178)	(9,428)	(5,414)	(20,020)
Payment within 16 to 20 years	(1,295)	(3,608)	(773)	(5,676)
Total Phase 1	**(15,544)**	**(23,314)**	**(26,876)**	**(65,734)**
Phase 2 - Witton Park / Blackburn Central with Crosshill schools				
Payment in 2020/21	(1,634)	(1,194)	(3,203)	(6,031)
Payment within 2 to 5 years	(6,503)	(5,773)	(11,848)	(24,124)
Payment within 6 to 10 years	(7,987)	(10,390)	(11,778)	(30,155)
Payment within 11 to 15 years	(8,690)	(14,149)	(7,316)	(30,155)
Payment within 16 to 20 years	(4,398)	(8,594)	(1,655)	(14,647)
Total Phase 2	**(29,212)**	**(40,100)**	**(35,800)**	**(105,112)**
Total	**(44,756)**	**(63,414)**	**(62,676)**	**(170,846)**

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

	Phase 1 £000	Phase 2 £000	Total
Balance outstanding at 31 March 2019	**(23,859)**	**(41,271)**	**(65,130)**
Payments during the year	545	1,171	1,716
Balance outstanding at 31 March 2020	**(23,314)**	**(40,100)**	**(63,414)**

29 LEASES

Council as Lessee

Operating Leases

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

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

31 March 2019 £000		31 March 2020 £000
1,320	Not later than one year	1,862
4,303	Later than one year and not later than 5 years	5,743
17,725	Later than 5 years	22,122
23,348	**Total**	**29,727**

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

31 March 2019 £000		31 March 2020 £000
1,720	Minimum lease payments	1,874
309	Contingent rents	172
2,029	**Total**	**2,046**

Council as Lessor

Finance Leases

The Council leases out land in respect of the shopping centre under a finance lease with a remaining term of 123 years.

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

31 March 2019 £000		31 March 2020 £000
26,275	Finance lease debtor (net present value of minimum lease payments)	26,273
153,154	Unearned finance income	151,708
179,429	**Gross investment in the lease**	**177,981**

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

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

31 March 2019			31 March 2020	
Gross Investment £000	Minimum Lease Payments £000		Gross Investment £000	Minimum Lease Payments £000
1,447	2	Not later than one year	1,447	2
5,788	9	Later than one year and not later than 5 years	5,788	9
172,194	26,264	Later than 5 years	170,746	26,262
179,429	**26,275**	**Total**	**177,981**	**26,273**

Operating Leases

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

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

31 March 2019 £000		31 March 2020 £000
(2,326)	Not later than one year	(2,241)
(7,476)	Later than one year and not later than 5 years	(6,568)
(53,536)	Later than 5 years	(60,962)
(63,338)	**Total**	**(69,771)**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 income generated from leases was £2,841,000 with £1,816,000 of contingent rents receivable by the Council (£2,498,000 and £1,430,600 respectively in 2018/19).

30 RESERVES

Usable reserves

The Council sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover contingencies (unallocated balances). Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no charge against council tax for the expenditure. This note sets out the amounts set aside from the General Fund in its usable reserves to provide financing for future spending plans and the amounts posted back from usable reserves to meet general fund expenditure in 2018/19 and 2019/20.

	Balance at 31 March 2018 £000	Transfers out 2018/19 £000	Transfers in 2018/19 £000	Balance at 31 March 2019 £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31 March 2020 £000
Earmarked reserves							
Reserves held for discretionary use by the Council							
Welfare, council tax and business rate reforms	**(268)**	90	0	**(178)**	15	0	**(163)**
Investments in assets and infrastructure	**(1,169)**	75	(19)	**(1,113)**	108	(71)	**(1,076)**
Other resources and transformation projects	**(228)**	2	(105)	**(331)**	0	(210)	**(541)**
Support for people services	**(2,924)**	151	(1,693)	**(4,466)**	2,320	(1,193)	**(3,339)**
Town centre, special events and economic development	**(619)**	0	0	**(619)**	50	0	**(569)**
Contingent sums to support future downsizing and transformation (including redundancy and pension strain costs)	**(3,768)**	888	0	**(2,880)**	276	0	**(2,604)**
Amounts carried forward in respect of unspent grants and contributions	**(1,838)**	1,183	(1,598)	**(2,253)**	1,739	(7,451)	**(7,965)**
Other amounts committed in future years budgets	**(203)**	121	(205)	**(287)**	109	(167)	**(345)**
Reserves held for specified purposes	**(2,090)**	489	(735)	**(2,336)**	1,395	(1,608)	**(2,549)**
Total earmarked reserves for discretionary purposes	**(13,107)**	**2,999**	**(4,355)**	**(14,463)**	**6,012**	**(10,700)**	**(19,151)**
Details of other earmarked reserves							
Reserves held in respect of joint arrangements and charitable bodies	**(411)**	9	(14)	**(416)**	58	(7)	**(365)**
Reserves held in relation to schools	**(8,731)**	1,738	0	**(6,993)**	2,293	860	**(3,840)**
LMS schools balances	**(5,652)**	501	0	**(5,151)**	736	(860)	**(5,275)**
Total of non-discretionary reserves	**(14,794)**	**2,248**	**(14)**	**(12,560)**	**3,087**	**(7)**	**(9,480)**
Total earmarked reserves	**(27,901)**	**5,247**	**(4,369)**	**(27,023)**	**9,099**	**(10,707)**	**(28,631)**
Unallocated reserves	**(6,055)**	**3,553**	**(3,401)**	**(5,903)**	**4,759**	**(6,029)**	**(7,173)**
Capital receipts reserve	**0**	**2,712**	**(2,962)**	**(250)**	**2,116**	**(1,866)**	**0**
Capital grants unapplied	**(7,050)**	**13,121**	**(13,000)**	**(6,929)**	**13,272**	**(12,186)**	**(5,843)**
Total Council usable reserves	**(41,006)**	**24,633**	**(23,732)**	**(40,105)**	**29,246**	**(30,788)**	**(41,647)**

Unusable reserves

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

31 March 2019 £000		31 March 2020 £000
(84,241)	Revaluation Reserve	(97,557)
(53,389)	Capital Adjustment Account	(39,212)
1,868	Financial Instruments Adjustment Account	1,810
(26,275)	Deferred Capital Receipts Reserve	(26,273)
269,165	Pensions Reserve	253,074
(1,414)	Collection Fund Adjustment Account	(2,048)
2,851	Accumulated Absences Adjustment Account	2,703
108,565	**Total**	**92,497**

Revaluation Reserve

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

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

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

2018/19 £000		2019/20 £000
(84,809)	**Balance at 1 April**	**(84,241)**
(6,758)	Upward revaluation of assets	(18,170)
5,338	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	2,696
(1,420)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(15,474)**
902	Difference between fair value depreciation and historical cost depreciation	911
1,086	Accumulated gains on assets sold or scrapped	1,247
1,988	**Amount written off to the capital adjustment account**	**2,158**
(84,241)	**Balance at 31 March**	**(97,557)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or enhancement.

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

2018/19 £000		2019/20 £000
(49,383)	**Balance at 1 April**	**(53,389)**
	Reversal of items relating to capital expenditure charged to the Comprehensive Income and Expenditure Statement	
11,900	Charges for depreciation and impairment of non-current assets	11,614
2,770	Revaluation losses / (gains) on property, plant and equipment	948
858	Amortisation of intangible assets	513
2,605	Revenue expenditure funded from capital under statute	3,288
2,511	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal calculation	22,952
(1,988)	Adjusting amount written out of the Revaluation Reserve	(2,158)
18,656	**Net written out amount of the cost of non-current assets consumed in the year**	**37,157**
	Capital financing applied in the year	
(2,712)	Use of the capital receipts reserve to finance new capital expenditure or set aside to reduce the net indebtedness of the Council	(2,116)
(9,759)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(9,150)
(3,362)	Application of grants to capital financing from the Capital Grants Unapplied Account	(4,122)
(6,163)	Statutory provision for the financing of capital investment charged against the General Fund	(6,526)
(689)	Capital expenditure charged against the General Fund	(1,073)
23	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	7
(53,389)	**Balance at 31 March**	**(39,212)**

Financial Instruments Adjustment Account

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

The Council uses the Financial Instruments Adjustment Account to manage premiums paid on the early redemption of loans. Premiums are initially debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the Financial

Instruments Adjustment Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. Similarly, further statutory provisions allow the "effective" interest rate charges in respect of soft loans and stepped interest loans to be reversed out of the General Fund balance to the Financial Instruments Adjustment Account.

2018/19 £000		2019/20 £000
1,925	**Balance at 1 April**	**1,868**
(33)	Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	(33)
	Effective interest rate adjustments in respect of:	
(16)	Soft loans	(17)
(8)	Stepped loan rates	(8)
(57)	**Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance cost chargeable in the year in accordance with statutory requirements**	**(58)**
1,868	**Balance at 31 March**	**1,810**

Deferred Capital Receipts Reserve

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

2018/19 £000		2019/20 £000
(26,276)	**Balance at 1 April**	**(26,275)**
1	Transfer to the capital receipts reserve upon receipt of cash	2
(26,275)	**Balance at 31 March**	**(26,273)**

Pensions Reserve

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

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

2018/19 £000		2019/20 £000
258,222	**Balance at 1 April**	**269,165**
(2,854)	Remeasurement of the net defined benefit liability	(42,461)
13,797	Amount by which pension costs calculated in accordance with IAS19 are different from the contributions due under the pension scheme regulations.	26,370
269,165	**Balance at 31 March**	**253,074**

Collection Fund Adjustment Account

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

2018/19 £000		2019/20 £000
(241)	**Balance at 1 April**	**(1,414)**
(1,173)	Amount by which the council tax income and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement differs to the amount calculated in accordance with statutory requirements	(634)
(1,414)	**Balance at 31 March**	**(2,048)**

Accumulated Absences Adjustment Account

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

2018/19 £000		2019/20 £000
2,041	**Balance at 1 April**	**2,851**
(2,041)	Settlement of cancellation of accrual made at the end of the preceding year	(2,851)
2,851	Amounts accrued at the end of the current year	2,703
810	**Amount by which remuneration charge to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**(148)**
2,851	**Balance at 31 March**	**2,703**

31 POST-EMPLOYMENT BENEFITS

Pension Schemes accounted for as defined contribution schemes

Teachers' pension scheme

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

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

In 2019/20, the Council paid £6,987,612 (£5,881,948 in 2018/19) to the Teachers Pensions Agency in respect of teachers' retirement benefits. The percentage of pensionable pay increased to 23.68% from September 2019 (16.48% in 2018/19).

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

National Health Service (NHS) pension scheme

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

In 2019/20, the Council paid £47,911 (£76,020 in 2018/19) to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.38% (14.38% in 2018/19) of pensionable pay. During 2019/20, the Council was notified of an increase in the contribution rate to 20.68% with effect from 1st April 2019. It was agreed that Government would fund the unforeseen element of the increase (3.8%) with the foreseen costs being met by a 2.5% increase in employers' contributions. The transitional arrangements for 2019/20 are that employers in the scheme continue to pay the existing rate of 14.38% under their normal arrangements, with the additional cost being recouped by way of twice yearly invoices. For Blackburn with Darwen Council these additional costs totalled £8,329 for 2019/20.

Defined benefit pension schemes

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

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

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former

employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every 3 years.

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

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

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

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

For the next three year period, commencing 1st April 2020, it has been agreed that the Council will take advantage of a discount offered for early payment of both the three year deficit amount and the (monthly) employer contributions in relation to current staff who are members of the LGPS. A payment of just over £38 million was made in April 2020, which will result in a net saving, after accounting for interest on borrowing, of approximately £1.5 million across the 3 year period.

Discretionary benefits

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

Transactions in relation to post-employment benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	20,910	23,698	0	0
Past service cost	0	10,928	0	0
(Gain)/loss from settlements and curtailments	291	85	0	0
Financing and Investment Income and Expenditure				
Net Interest expense and administration costs	6,530	6,635	183	167
Total post-employment benefit charged to the surplus or deficit on the provision of services	**27,731**	**41,346**	**183**	**167**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Remeasurement - assets	(51,283)	(27,904)	0	0
Remeasurement - liabilities				
- Experience (gain) / loss	0	34,687	0	(1,067)
- (Gains)/losses on financial assumptions	48,188	(15,727)	241	(75)
- (Gains)/losses on demographic assumptions	0	(32,216)	0	(159)
Total re-measurement recognised in Other Comprehensive Income	**(3,095)**	**(41,170)**	**241**	**(1,301)**
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**24,636**	**186**	**424**	**(1,134)**
Movement in Reserves Statement				
Reversal of net charges made to the surplus/deficit on the provision of services for post-employment benefits in accordance with the Code	(14,172)	(26,739)	375	369
Actual amount charged against the General Fund balance for pensions in the year				
Employers' contributions payable to the scheme	**13,559**	**14,607**		
Retirement benefits payable to pensioners			**558**	**536**

Pensions assets and liabilities recognised in the Balance Sheet

The lump sum early payment of £13.508 million made by the Council in April 2017, has been reflected in each of the three years' accounts 2017/18 to 2019/20 at around £4.503 million. In the 2018/19 comparative figures, the final £4.503 million is offset against the Pension scheme net liability in the Council's Balance Sheet. The Pension scheme net liability at 31st March 2019 as assessed by the Fund Actuary was £269.165 million (as detailed in the tables below), however, the corresponding amount included within the Council's Balance Sheet has been reduced by the £4.503 million advance payment resulting in a reported Pension scheme liability of £264.662 million (see Note 27 *Other Long Term Liabilities*). As 2019/20 is the final year of the three year arrangement, the actuarial figures in the tables below are included in the Balance Sheet with no adjustment.

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

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Present value of the defined benefit obligation	(903,002)	(928,785)	(7,197)	(5,527)
Fair value of plan assets	641,034	681,238	0	0
Net liability arising from defined benefit obligation	**(261,968)**	**(247,547)**	**(7,197)**	**(5,527)**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Opening balance at 1 April	**(827,708)**	**(903, 002)**	**(7,331)**	**(7,197)**
Current service cost	(20,910)	(23,698)	0	0
Interest cost	(21,321)	(21,627)	(183)	(167)
Contributions by scheme participants	(4,156)	(4,346)	0	0
Remeasurement - liabilities				
- Experience (gain) / loss	0	(34,687)	0	1,067
- (Gains)/losses on financial assumptions	(48,188)	15,727	(241)	75
- (Gains)/losses on demographic assumptions	0	32,216	0	159
Past service (cost)/gain	0	(10,928)	0	0
(Losses)/gains on curtailment	(291)	(85)	0	0
Liabilities extinguished on settlements	0	0	0	0
Benefits paid	19,572	21,645	558	536
Closing balance at 31 March	**(903,002)**	**(928,785)**	**(7,197)**	**(5,527)**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Opening balance at 1 April	**576,817**	**641,034**	**0**	**0**
Interest income	15,121	15,405	0	0
Remeasurement (gains) / losses - assets	51,283	27,904	0	0
Settlements	0	0	0	0
Contributions from employer	13,559	14,607	558	536
Contributions from employees into the scheme	4,156	4,346	0	0
Benefits paid	(19,572)	(21,645)	(558)	(536)
Other	(330)	(413)	0	0
Closing balance at 31 March	**641,034**	**681,238**	**0**	**0**

Local Government Pension Scheme assets comprised:

31 March 2019 £000	Asset category	Quoted in active markets (Y/N)	31 March 2020 £000
3,728	**Cash and cash equivalents etc.**	N	**7,494**
	Bonds (by sector):		
4,350	UK Corporate	Y	8,174
3,167	Overseas Corporate	N	8,856
22,533	UK index linked	Y	0
30,050	**Sub-total bonds**		**17,030**
	Property (by type):		
15,432	Retail	N	681
44,316	Commercial	N	8,856
59,748	**Sub-total property**		**9,537**
	Private equity:		
0	UK	N	0
49,266	Overseas	N	54,499
49,266	**Sub-total private equity**		**54,499**
	Other investment funds:		
90,617	Infrastructure	N	94,011
9,811	Indirect Property Funds	N	48,368
45,516	Credit Funds	N	107,636
69,726	Pooled Fixed Income	N	36,106
282,572	Overseas Pooled Equity Funds	N	306,557
498,242	**Sub-total other investment funds**		**592,678**
641,034	**TOTAL ASSETS**		**681,238**

Basis for estimating assets and liabilities

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

Estimates for the Lancashire County Fund are based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the actuary are as follows:

2018/19		2019/20
Mortality assumptions		
Longevity at 65 for current pensioners		
22.8	Male	22.3
25.5	Female	25.0
Longevity at 65 for future pensioners		
25.1	Male	23.8
28.2	Female	26.8

Financial assumptions		
2.2%	Rate of CPI inflation	2.1%
3.7%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions (payment / deferment)	2.2%
2.4%	Rate for discounting scheme liabilities	2.4%

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

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

Change in assumptions at 31 March 2020	Impact on the net Defined Benefit Liability £000	Impact on the projected Service Cost for next year £000	Impact on the projected Net Interest Cost for next year £000
Longevity - 1 year increase in member life expectancy	+ 25,187	+ 650	+ 611
Rate of inflation - increase by 0.1%	+ 16,468	+ 635	+ 402
Rate of increase in salaries – increase by 0.1%	+ 1,771	0	+ 49
Rate for discounting scheme liabilities – increase by 0.1%	- 16,183	- 609	- 158
Change in 2019/20 investment returns:			
- increase by 1%	- 6,821	0	- 164
- decrease by 1%	+ 6,821	0	+ 164

Impact on the Council's cash flows

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

The Regulations also require actuarial valuations to be carried out every 3 years. The most recent valuation, at 31 March 2019, showed a surplus of £12 million against the Fund's solvency funding target. An alternative way of expressing the position is that the Fund's assets were sufficient to cover just over 100% of its liabilities – this percentage is known as the solvency funding level of the Fund. The previous valuation at 31 March 2013 showed a shortfall of £690 million, equivalent to a solvency funding level of 90%.

The LGPS Regulations require the next 3 years' contributions to be set so as to secure the Fund's solvency and long-term cost efficiency. The "Primary rate" of the employers' contribution is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. The "Secondary rate" of an individual employer's contribution is an adjustment to the primary contribution rate to reflect any past service deficit or surplus, based on an average recovery period of 16 years. Funding levels are monitored on an annual basis, with the next triennial valuation due to be completed on 31 March 2022.

The Council's projected contributions to the scheme in 2020/21 are £12.480 million.

The weighted average duration of the authority's defined benefit obligation is 17 years, measured on the actuarial assumptions used for IAS19 purposes.

Developments in relation to the McCloud judgement

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

The Fund's Funding Strategy Statement (FSS) includes an implicit allowance for the estimated cost of the McCloud judgment. At the overall Fund level it is estimated that the stand-alone cost of the judgment is an increase in past service liabilities of broadly £68million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Once the final remedy for McCloud is known, the position will be reviewed. Whilst it is possible that the Fund may require additional contributions from employers at that point in time, based on the Administering Authority's current knowledge and understanding of the likely outcome, it is more likely that contributions will not be reviewed until the next actuarial valuation unless this is a requirement of the final remedy process.

For 2018/19, the actuarial calculation of the potential additional pension liability for the Council of the McCloud judgement was assessed as at 31 March 2019 as an additional past service cost of £5.855 million. However, as the calculations were made after the accounting statements were largely complete, and as the additional amount was not considered to be material to the accounts, no additional charge was made against the Comprehensive Income and Expenditure Account in 2018/19.

For 2019/20, the actuarial figures do include the estimated additional liabilities arising from the judgement, based on calculations carried out on the individual member data supplied for the 2019 round of actuarial valuations. As Blackburn with Darwen council did not include an estimate of the McCloud liabilities in their accounts in 2018/19, the increase in past service liabilities is shown as a "past service cost" calculated as at 1st April 2019. The current service cost for 2019/20 also includes an allowance for the additional costs which arise from the judgement.

32 CASH FLOW STATEMENT NOTES

Operating activities

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

The cash flows for operating activities include the following items:

31 March 2018 £000		31 March 2020 £000
2,771	Interest received	2,818
(12,399)	Interest paid	(14,595)

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

31 March 2019 £000		31 March 2020 £000
11,926	Depreciation	11,614
2,744	Impairment and downward valuations	948
858	Amortisation	513
6,595	Increase/(decrease) in creditors	(1,497)
(5,046)	(Increase)/decrease in debtors	(468)
(54)	(Increase)/decrease in inventories	81
18,300	Movement in pension liability	30,873
2,821	Carrying amount of non-current assets, non-current assets held for sale, sold or derecognised	23,317
(158)	Other non-cash items charged to the surplus or deficit on the provision of services	(522)
37,986	**Total**	**64,859**

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

31 March 2019 £000		31 March 2020 £000
10	Proceeds from short-term and long-term investments	10
(2,962)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,116)
(13,000)	Any other items for which the cash effects are investing or financing cash flows	(12,186)
(15,952)	**Total**	**(14,292)**

Investing activities

31 March 2019 £000		31 March 2020 £000
(17,634)	Purchase of property, plant and equipment, investment property and intangible assets	(23,221)
(344,750)	Purchase of short term and long term investments	(241,140)
1,766	Other payments for investing activities	(1,651)
2,962	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,118
355,850	Proceeds from short term and long term investments	209,140
13,025	Other receipts from investing activities	12,160
(11,219)	**Net cash flows from investing activities**	**(42,594)**

Financing activities

31 March 2019 £000		31 March 2020 £000
76,000	Cash receipts of short term and long term borrowing	111,000
0	Other receipts from financing activities	0
(1,718)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(1,716)
(89,690)	Repayment of short term and long term borrowing	(74,940)
779	Other payments for financing activities	(1,810)
(14,629)	**Net cash flows from financing activities**	**(32,534)**

33 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

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

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

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

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

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

The Council and the Clinical Commissioning Group (CCG) received £11.992 million revenue ring fenced grant in 2019/20 (£11.381 million in 2018/19) towards the Better Care Fund (BCF), of which £6.287 million expenditure (£5.552 million in 2018/19) was incurred by the CCG on health related initiatives and the remaining £5.705 million (£5.829 million) was retained by the Council to spend on health and social care schemes, in accordance with the pooled budget arrangements. The BCF brings together NHS and Local Government resources, and operates as a pooled budget (Section 75 agreement) with Blackburn with Darwen Council identified as the pooled budget host. The BCF provides an opportunity through pooled budget arrangements to transform local services so that people are provided with better integrated care

and support. The Fund provides a real opportunity to create a shared plan for the totality of health and social care activity, to improve services and value for money, and protecting and improving social care services by shifting resources from acute services into community and preventive settings.

The Council received £14.4 million of Public Health Grant in 2019/20 (£14.8 million in 2018/19) for the delivery of Public Health services aimed at improving health outcomes for all ages and removing health inequalities across the borough population. The Public Health Grant is allocated to the authority as a ring fenced grant.

The Council hosts a joint building control service with Burnley Borough Council. Under a service level agreement both authorities contribute towards the net running cost of the service, with Burnley contributing 35.5% (£88,776) and Blackburn with Darwen contributing 64.5% (£161,297) in 2019/20. In 2018/19 the corresponding figures were 35.5% (£85,272) and 64.5% (£154,931) respectively.

Members

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

The total of Members' allowances paid in 2019/20 is shown in Note 9.

Details of Members' interests are recorded in the Register of Members' Interests, which is open to public inspection. The table below contains transactions during 2019/20 for services delivered to / from organisations in which members have declared interests that would indicate a significant level of control:

	Income received £	Income owed to the Council £	Payments made £	Payments owed by the Council £
Home Care For You Limited	(4,412)	0	1,897,819	0

In all cases, the works or services detailed above were entered into in full compliance with the Council's standing orders, financial procedure rules and procurement procedure rules.

Officers

Officers are appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities. All officers are also required to declare any relevant interests in a departmental register of interest, gifts and hospitality. In 2019/20 one senior officer made the following additional declarations:

- a family relationship with a senior officer in one of the Council's major precepting authorities. Although there are significant transactions between the two parties in relation to business rates and council tax, the administration of these is strictly defined by a statutory framework.

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

Interests in companies and other entities

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

Blackburn with Darwen and Bolton Local Education Partnership Limited

The Council has a 5% shareholding in Blackburn with Darwen and Bolton Local Education Partnership Limited, which was formed in order to deliver the capital investment elements of the Building Schools for the Future programme. The Council has also invested in Blackburn with Darwen and Bolton Phase 1

Holdings Limited, Blackburn with Darwen and Bolton Phase 1 Limited, Blackburn with Darwen and Bolton Phase 2 Holdings Limited, Blackburn with Darwen and Bolton Phase 2 Limited, which are special purpose companies established solely to deliver the new schools at Pleckgate, Witton Park and Blackburn Central with Crosshill under the Private Finance Initiative (Note 28). Payments made in 2019/20 to the Blackburn with Darwen and Bolton Local Education Partnership Limited amounted to £13.850 million (£13.524 million in 2018/19).

Growth Lancashire Limited

The Council is one of 6 local authorities with an interest in Growth Lancashire Limited (formerly Regenerate Pennine Lancashire Limited), an economic development company designed to help increase prosperity and life choices for people living and working in Pennine Lancashire. By working alongside businesses to boost Lancashire's economy, the company is able to create new job opportunities and access local funds, Government grants and European funding. The company delivers a Gateway Service to support businesses throughout Lancashire, Blackpool and Blackburn with Darwen, and provides funding to assist business growth.

The company is limited by guarantee. Lancashire County Council is the accountable body, providing the company secretary and audit services at no cost. Blackburn with Darwen Borough Council acts as the employing body for staff and provides finance, IT and related support.

Barnfield Blackburn Limited

The Council has an interest in Barnfield Blackburn Limited, a joint venture company with the aim of acquiring and preparing development sites within the Borough in order to facilitate growth in jobs and housing.

Entities controlled or significantly influenced by the Council

The Council made payments in respect of the commissioning of services under either a Service Level Agreement or contractual agreement totalling £2,491,583 to seven organisations during the year where the amounts concerned provided a significant proportion of those organisations' income. The details are as follows:

- Spring North (Formerly Families, Health & Wellbeing Consortium) - £988,750
- Blackburn with Darwen Council for Voluntary Service (CVS) - £276,042
- Care Network (BWD) Limited - £253,236
- Age UK Blackburn with Darwen - £515,593
- Lancashire Women's Centre - £103,835
- Blackburn with Darwen Carers SVC - £89,583
- Child Action North West - £264,543

Similar payments totalling £1,541,253 were made in 2018/19. In these cases, there is a presumption that there is substantial reliance upon such income for the future continuation or otherwise of the organisations concerned.

34 CONTINGENT ASSETS AND LIABILITIES

Contingent Asset

The Council is currently pursuing the recovery of costs incurred in respect of a service user within Adult Social Care. The case involves a dispute between three local authorities over the responsibility for the social care costs for an individual service user. Legal services have been involved in this case to pursue recovery of the costs and after numerous attempts over six years the case has been to ADASS for mediation and will now be referred to the Secretary of State for resolution. The amount to be recovered in respect of the service user amounts to £330,000 as at end of March 2020.

Contingent Liability

Following the liquidation of Municipal Mutual Insurance (MMI) in 1992/93 there are a number of claims outstanding which may not be resolved for many years. The "Scheme of Arrangement" between local authorities and the administrators of MMI was invoked in 2012/13 and the Council has a liability both in relation to the former Blackburn Borough Council and Lancashire County Council (in relation to transferred services). The total potential liability in relation to the former Blackburn Borough Council as at 31 March 2020 remains uncertain. A Levy has been paid at a rate of 25% on established scheme liabilities - amounting to a total of £499,000 for the Council. In considering the most likely remaining financial impact, the Council has set aside a provision of £320,000, with a further £250,000 being held in an earmarked reserve. However, there is a risk that the Council's financial liability could increase from this level.

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT

2018/19				2019/20		
Non-domestic rates	Council tax	Total		Non-domestic rates	Council tax	Total
£000	£000	£000	**Income**	£000	£000	£000
	(59,823)	(59,823)	Council tax receivable (net of benefits, discounts for prompt payment and transitional relief)		(64,018)	(64,018)
(46,471)	0	(46,471)	Non-domestic rates receivable (net of discretionary and mandatory reliefs)	(46,396)	0	(46,396)
			Contribution towards previous year's Collection Fund deficit			
0	0	0	- Central Government	0	0	0
0	(512)	(512)	- Blackburn with Darwen Borough Council	0	(284)	(284)
0	(61)	(61)	- Police & Crime Commissioner for Lancashire	0	(34)	(34)
0	(24)	(24)	- Lancashire Combined Fire Authority	0	(13)	(13)
0	**(597)**	**(597)**	**Total contribution to previous year's Collection Fund deficit**	**0**	**(331)**	**(331)**
(46,471)	**(60,420)**	**(106,891)**	**Total income**	**(46,396)**	**(64,349)**	**(110,745)**
			Expenditure			
			Precepts and demands from major preceptors and the Council (Council tax)			
0	50,501	50,501	- Blackburn with Darwen Borough Council	0	52,758	52,758
0	6,094	6,094	- Lancashire Police Authority	0	7,018	7,018
0	2,317	2,317	- Lancashire Combined Fire Authority	0	2,421	2,421
0	**58,912**	**58,912**	**Total council tax precepts**	**0**	**62,197**	**62,197**
			Shares of non-domestic rating income to major preceptors and the Council (billing authority)			
19,677	0	19,677	- Blackburn with Darwen Borough Council	30,843	0	30,843
402	0	402	- Lancashire Combined Fire Authority	630	0	630
20,079	**0**	**20,079**	**Total non-domestic rates precepts**	**31,473**	**0**	**31,473**
20,080	0	20,080	Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to Central Government	10,491	0	10,491
3,220	0	3,220	Transitional Protection Payments payable	1,925	0	1,925
998	939	1,937	Impairment of debt/appeals	1,190	1,393	2,583
250	0	250	Charge to General Fund for allowable collection costs	248	0	248
			Contribution towards previous year's Collection Fund surplus			
225	0	225	- Central Government	810	0	810
221	0	221	- Blackburn with Darwen Borough Council	794	0	794

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT

0	0	0	- Police & Crime Commissioner for Lancashire	0	0	0
5	0	5	- Lancashire Combined Fire Authority	16	0	16
45,078	**59,851**	**104,929**	**Total expenditure**	**46,947**	**63,590**	**110,537**
(1,393)	**(569)**	**(1,962)**	**Movement on fund balance**	**551**	**(759)**	**(208)**
(1,570)	**616**	**(954)**	**Fund balance brought forward**	**(2,963)**	**47**	**(2,916)**
(1,393)	(569)	(1,962)	Movement on fund balance	**551**	**(759)**	**(208)**
(2,963)	**47**	**(2,916)**	**Fund balance carried forward**	**(2,412)**	**(712)**	**(3,124)**

Allocation of Collection Fund balance

31 March 2019			31 March 2020	
Non-domestic rates £000	Council tax £000	(Surplus)/deficit carried forward	Non-domestic rates £000	Council tax £000
		Allocated to:		
(1,452)	40	Blackburn with Darwen Borough Council	(1,444)	(604)
0	5	Police & Crime Commissioner for Lancashire	0	(80)
(30)	2	Lancashire Combined Fire Authority	(29)	(28)
(1,481)	0	Central Government	(939)	0
(2,963)	**47**	**Total**	**(2,412)**	**(712)**

Non-domestic rates

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

The non-domestic rating multiplier was 50.4p for 2019/20 (49.3p for 2018/19), which was made up of a small business rating multiplier of 49.1p plus a supplement of 1.3p. The total non-domestic rateable value at 31 March 2020 was £120,571,869 (£120,164,399 at 31 March 2019).

For 2019/20 Blackburn with Darwen Council, joined with 13 of the other 14 councils across Lancashire to form a 75% Business Rates Retention (BRR) Pool Pilot. The pilot model resulted in an increase in the level of Business Rates retained locally from 50% to 75% - the local share being split between Lancashire Combined Fire Authority (1.5%) and the Council as Billing Authority (73.5%).

Calculation of the council tax base

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

In 2019/20 the calculation of the tax base for council tax setting purposes was based on a total of 61,646 (61,395 in 2018/19) residential properties (taken from a list prepared by the Government's Valuation Office). After taking account of discounts, exemptions and disabled relief these equate to 44,652 chargeable dwellings or 35,733 band D equivalent properties, as analysed in the table below.

Valuation Band	Total equivalent number of dwellings after discounts, exemptions and disabled relief	Chargeable Band D Equivalents
A	22,842	15,219
B	7,443	5,789
C	7,138	6,345
D	4,036	4,036
E	1,876	2,293
F	720	1,040
G	546	909
H	51	102
Total	**44,652**	**35,733**

General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2019/20 and its position at the year-end of 31 March 2020. The Council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost modified by the revaluation of certain categories of non-current assets and financial instruments.

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

All accounting policies are disclosed where they are material and reflect the particular circumstances of the Council.

Accruals of income and expenditure

Activity is accounted for in the financial year in which it takes place, not when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and cash equivalents

Cash consists of cash in hand and deposits with financial institutions repayable without penalty on notice of no more than twenty four hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category includes cash on call and instant access Money Market Funds.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Charges to revenue for non-current assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance (i.e. Minimum Revenue Provision or MRP). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Council tax and non-domestic rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for council tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of the year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi leave or time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

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

- **Teachers' pension scheme** - administered by Capita Teachers' Pensions on behalf of the Department for Education (DfES).
- **NHS pension scheme -** administered by NHS Business Services Authority on behalf of the Department of Health.
- **Local government pension scheme** (LGPS) – Pension administration services are provided to the Lancashire County Pension Fund by Local Pensions Partnership, with Lancashire County Council as the Administering Authority.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The *Schools and Education DSG* line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The *Public Health and Wellbeing* line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate of 2.4% (based on the indicative rate of return on high quality corporate bonds).
- The assets of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - Quoted securities – current bid price
    - Unquoted securities – professional estimate
    - Unitised securities – current bid price
    - Property – market value

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

Component	Description	Treatment
Service costs		
Current service costs	The increase in liabilities as a result years of service earned this year	Allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
Past service costs	The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years	Debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement - within Non-distributed costs
Net Interest on the net defined benefit liability i.e. interest expense for the Council	The change during the period in the net defined benefit liability that arises from the passage of time. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments	Charged to the *Financing and investment income and expenditure* line of the Comprehensive Income and Expenditure Statement
Re-measurements		
The return on plan assets	The return on plan assets, excluding amounts included in net interest on the net defined benefit liability.	Charged to the Pensions Reserve as other comprehensive income and expenditure
Actuarial gains and losses	Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.	Charged to the Pensions Reserve as other comprehensive income and expenditure
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities	These are not accounted for as an expense

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the reporting period

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

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

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

Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payment over the life of the instrument to the amount at which it was originally recognised.

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

However, the Council has taken some market loans subject to “stepped” interest rates, where the initial rates payable were lower than over the rest of the loan. Interest charges for these loans are averaged out over the life of each loan and effective interest rates are used to calculate their amortised cost for the Balance Sheet. As the loans were taken before 9 November 2007, however, there is no impact on the General Fund Balance as reconciling adjustments are made to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, if the repurchase takes place as part of a restructuring of the loan portfolio that involves a modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan. In this scenario the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of the amounts charged to the Comprehensive Income and Expenditure Statement to the net charge against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The Council holds financial assets measured at:

- Amortised cost
- Fair value through other comprehensive income (FVOCI), and
- Fair value through profit or loss (FVPL),

The Council's business model is to hold investments to collect contractual cash flows, financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely repayment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument.

FVOCI assets relate to financial instruments where the amounts received relating them are solely principal and interest and they are held **both** to generate cash flows and to sell the instrument. It also includes equity investments that the Council may elect into this category i.e. an equity investment that has been classed as FVPL can be designated as FVOCI if it is not held for trading (e.g. a strategic investment). Once this designation has been made it cannot be reversed.

Financial assets measured at amortised cost

Financial assets measured at amortised costs are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially valued at fair value. They are subsequently valued at their amortised cost. Annual credits to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council sometimes makes loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement at a marginally higher effective interest rate than the rate receivable from the voluntary organisation, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable in the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Expected credit loss model

The Council recognises expected credit losses on all of its financial assets held at amortised costs (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

Impairment losses are calculated to reflect the expectation that future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses.

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. In practice, for trade receivables, unless it is known that a counterparty is at risk of going into administration the calculation is largely based on age of debt and amount of debt overdue.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets that are measured at FYOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

Cumulative gains and losses are charged to the Surplus or Deficit on the Provision of Services when they are disposed of. Under capital accounting regulations, where these assets are treated as capital expenditure any gains or losses are reversed to an unusable reserve – the Financial Instruments Revaluation Reserve.

Financial assets measured at fair value through profit or loss (FVPL)

Financial assets that are measured at FYPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

These assets relate to financial instruments where the amounts received relating them are not solely principal and interest (e.g. Money Market Funds or equity investments not designated as a strategic investment).

Fair value measurements of financial assets

The fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on derecognition of the asset are credited or debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement. Under capital accounting regulations.

Fair value measurement of non-financial assets

The Council's policy for fair value measurement of financial assets is set out in the previous section (Financial Instruments). The Council also measures some of its non-financial assets, such as surplus assets and investment properties, and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset, or

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

The Council measures the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 – unobservable inputs for the asset.

Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants and contributions are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant or contribution has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Heritage Assets

The Council's Heritage assets are largely held in Blackburn museum. They are held by the Council in support of the primary objective of increasing the knowledge, understanding and appreciation of the Borough's history and local area. Heritage assets are recognised and measured largely in accordance with the Council's accounting policies on property, plant and equipment although valuation of the Council's heritage assets has included a degree of estimation. These assets have an indeterminate life and are subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

With respect to the Council's collection of art, books and manuscripts, civic regalia and other artefacts, items with a value of £25,000 or over are recognised in the Balance Sheet at the insurance valuation, which is based on market values. The schedule of items held within this category is reviewed each year and adjusted for additions and deletions or impairments (e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity). Formal valuations are reviewed and updated when items are being loaned out to other organisations or where it is considered that there has been a material change to the condition of an asset.

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

Public/street art, monuments and statues are included in the Balance Sheet at historic cost where such information is available. Heritage assets such as Darwen Jubilee Tower, the War Memorial and various statues have not been recognised in the Balance Sheet as recent information on cost is not available or the cost of obtaining the information outweighs the benefit to the users of the financial statements.

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

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meet this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the *Other operating expenditure* line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses, and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds over £10,000) the Capital Receipts Reserve.

Inventories and Long-term contracts

The Council's inventories are valued on a variety of bases depending on the nature of the items involved. These bases include cost, average cost and first in first out. The Code requires inventories to be included in the Balance Sheet at the lower of cost and net realisable value. The different treatment of stocks is not considered to be material.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Industrial and commercial properties held by the Council are not considered to be held solely to earn rentals and/or for capital appreciation. Rather, they are held for regeneration, planning reasons and estate management and, therefore, have been classified as property, plant and equipment.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year end. Gains and losses on revaluation are posted to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

Leases

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

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

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

The Council as lessee

Finance leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid

on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability, and
- a finance charge (debited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement).

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

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

Operating leases

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

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the *Other operating expenditure* line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the *Financing and investment income and expenditure* line in the Comprehensive Income and Expenditure Statement).

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

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

Operating leases

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

Private Finance Initiatives (PFI) and similar contracts

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

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

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

Prior period adjustments, changes in accounting policies and estimates, and errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions

on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

Property, Plant and Equipment (PPE)

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

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. The Council only capitalises items that exceed the de minimis threshold of £10,000. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price, and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets - depreciated historical cost
- Assets under construction - historical cost
- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- Land and buildings and other operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

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

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

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

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

Disposals and derecognition

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the *Other operating expenditure* line of the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to former housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserve Statement

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

Provisions, Contingent Liabilities and Contingents Assets

Provisions

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

Provisions are charged as an expense to the appropriate service line of the Comprehensive Income and Expenditure Statement when the Council has obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Revenue expenditure funded from capital under statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Schools

The Code confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council. This includes community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. The Code also stipulates that these schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (i.e. the single entity accounts rather than group accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

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

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

Capital expenditure on community schools is added to the balances for those schools as reported in the property, plant and equipment note. Capital expenditure on voluntary aided and foundation schools is treated as Revenue Expenditure Funded from Capital under Statute (REFCUS) and written off each year to the Comprehensive Income and Expenditure Statement within School's and Education Services (Non-DSG). Dedicated Schools Grant (DSG) is credited to the Comprehensive Income and Expenditure Statement within taxation and non-specific grant income based on amounts due from the Department for Education. (Further details are provided in Note 7).

DSG is allocated between centrally retained Council budget and budgets delegated to individual schools. Expenditure from centrally retained budgets and delegated schools budgets is charged to the Comprehensive Income and Expenditure Statement under School's and Education Services (DSG). Academies are funded directly from the Government, not via the local authority apart from funding for pupils with high needs. Income and expenditure in relation to academies is therefore not charged to the Comprehensive Income and Expenditure Statement.

Individual schools' balances for local authority maintained schools at 31 March 2019 are included in reserves in the Council's Balance Sheet.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

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

The Council is required to disclose the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2019 but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2020/21 Code will introduce the following amendments:

IFRS 16 *Leases*

The implementation of IFRS 16 Leases has been deferred, initially for one year then subsequently for a further year, until 1 April 2021, in-line with the government's Financial Reporting Advisory Board's proposals for central government departments.

The Council is currently reviewing its leases to assess the impact of the removal of the current distinction between finance and operating leases. Instead, lessees will be required to recognise assets and liabilities for all leases i.e. the lessee will recognise a right-of-use asset representing its right to use the leased asset; and a lease liability representing the lessee's obligation to make lease payments for the asset.

Amendments to IAS 28 *Investments in Associates and Joint Ventures: Long-term Interests in associates and Joint Ventures*

IFRS 9, Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28. In this amendment the IASB clarifies that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

Annual Improvements to IFRS Standards 2015-2017 Cycle

As part of its process to make non-urgent but necessary amendments to IFRS, the IASB has issued amendments to:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

- IAS 12 Income Taxes
- IAS 23 Borrowing Costs

Amendments to IAS 19 *Employee Benefits: Plan Amendment, Curtailment or Settlement*

This addresses the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments:

- require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event;
- clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements;
- do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

SIGNIFICANT JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- **Funding** - there continues to be a high degree of uncertainty about future levels of funding for local government. The risks and uncertainty that underpin the assumptions within the Council's Medium Term Financial Strategy (MTFS) was initially due to the lack of information provided by central Government in relation to: the mechanisms for Business Rates Retention; the outcome of the Fair Funding Review and the resulting redistribution of resource; the Government's plan to address the future of social care; and the impact of Brexit. The substantial impacts of the COVID-19 pandemic have increased the level of uncertainty, and the Council has undertaken detailed costing and forecasting to project both the additional expenditure incurred and the loss of income. Although the projected financial impact initially exceeded the support received from Government, the projections are under constant review and are updated and reported to Members and Management Board regularly. Executive Members and their Directors continue to work to develop further savings options for consideration, therefore the Council continues to believe that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to close facilities and reduce levels of service provision.

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

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical

experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment – valuation	
PPE assets included in the Balance Sheet at current value, are valued by the Council's in-house valuer on a five year rolling programme, unless events indicate that a more frequent interval is required to assess the impact of: material capital work completed in year; impairment of specific properties; significant movement in property price indices on those assets not valued in the current year. Surplus and Investment assets are included in the Balance Sheet at fair value and are valued annually.	The total gross valuation of PPE assets included in the Balance Sheet at current or fair value at 31 March 2020 is £245.9 million (see note 13 for further analysis). Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. However, due to changes in economic conditions, a valuation taken on a different date could potentially result in a different outcome. Given the unknown future impact that COVID-19 might have on the real estate market, the valuers are faced with an unprecedented set of circumstances on which to base a judgement. Consequently, less certainty and a higher degree of caution should be attached to their valuations than would normally be the case for this financial year. The current response to COVID-19 means that valuations could be reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.
Property, plant and equipment/intangible assets – depreciation/amortisation	
Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful life assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £176,435 for every year that useful lives had to be reduced.
Fair value measurements	
When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair	The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment / surplus properties) and discount rates – adjusted for regional factors (for both investment / surplus properties and some financial assets) Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets. For investment and surplus properties, the impact of COVID-19 is as detailed in the PPE valuation section above.

value. For example for investment properties - the Council's in-house valuer, and for financial instruments - the Council uses its professional treasury advisers, Arlingclose.	
Arrears	
At 31 March 2020, the Council had a balance of sundry debtors, including council tax and business rates arrears, of £38.4 million. Against this debtor balance there is a total impairment allowance of £17.3 million. In the current economic climate it is not certain that such an allowance would be sufficient as the Council cannot assess with certainty which debts will be collected or not	The impairment allowances held are based on policies adapted to the nature of the debt and service area, historic experience and current debt recovery performance data. The assessment of credit losses is based on information about past events, current conditions but also future forecasts. The economic outlook for an authority's financial assets as a result of the COVID-19 pandemic must be taken into account when considering: • the risk of default of its financial assets • the exposure to that default risk, and • the estimated loss as a result of the default. As current circumstances are unprecedented, it will be difficult for local authorities to make such assessments, as the Code requires that calculations are made on the basis of reasonable and supportable information that is available without undue cost or effort at the reporting date.
Provisions	
The council has made a combined provision of £0.947 million for the settlement of potential damage or injury claims being made against the Council, based on the number of claims made, an average settlement amount and the value of any policy excess. A further provision of £1.6 million relates to the Council's share of the cost of refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list, calculated using data from the Valuation Office Agency (VOA) and an analysis of successful appeals to date.	The main cause of estimation uncertainty relates to the timing and outcome of claims made against the Council.
Pensions liability	
Estimation of the liability to pay pensions within the Local Government Pension Scheme (LGPS) depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged, via the Lancashire County Pension Fund, to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £16.2 million However, the assumptions interact in complex ways. In March 2020 there have been substantial falls in equity markets around the world due to the COVID-19 pandemic, which will reduce asset values. These market falls have also extended to corporate bonds, resulting in yields on AA-rated corporate bonds rising by around 0.5% p.a. As the discount rate for accounting purposes is based on corporate bond yields, this rise in yields will have caused a reduction in accounting liabilities. **Pensions Assets** – as for the valuation of the Council's PPE assets referred to above, the value of LGPS assets is dependent on a professional judgement based on information available at the time of making the valuation. The current COVID-19 pandemic is impacting financial

	markets in all sectors and at the valuation date it is not considered that valuers can rely upon previous comparable market evidence to fully inform opinions of value. As a result, there is a risk that the value of property investments may be under or over-stated. Valuers are faced with an unprecedented set of circumstances this year, on which to base a judgement. Valuations have, therefore, been reported on the basis of 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to their valuations than would normally be the case. **McCloud judgement** - as details of the remedy for the schemes has not been drafted this creates a lot of uncertainty about the basis for valuing the impact of the Judgements on the pension schemes. To mitigate this, estimation has been undertaken by the actuary based on the membership profile and other assumptions specific to the Council, rather than the scheme or Fund as a whole.

GLOSSARY

Accounting policies

Those principles, bases, conventions, rules and practices applied by the Council, which define the process by which transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or loss is to be recognised, the basis on which it is to be measured and where in the revenue account or Balance Sheet it is to be presented.

Accruals concept

The concept that income is recorded when it is earned rather than when it is received and expenditure is recorded when goods or services are received rather than when payment is made.

Actuarial gains and losses

For a defined benefit pension scheme, these are the changes in actuarial deficits or surpluses that arise because either events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

Associate company

This is an entity in which the Council has a participating interest and over who's operating and financial policies the Council is able to exercise significant influence.

Approved budget

The planned expenditure and income for the financial year in the case of revenue, or over the life of the project in the case of a capital scheme.

CIPFA

Chartered Institute of Public Finance and Accountancy. The Institute provides financial and statistical information for local government and other public sector bodies and advises central government and other bodies on local government and public finance matters.

Capital charges

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital expenditure

Expenditure on the acquisition of a non-current asset or expenditure which adds to (and not merely maintains) the value of an existing non-current asset.

Capital receipts

Income received from the sale of land or other capital assets, which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003. Capital receipts cannot be used to fund revenue services.

Collection Fund

The Collection Fund is administered by the Council to record the receipts from council tax and non-domestic rates and payments to the General Fund and other preceptors including Central Government.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council's control.

Contingent liability

Either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control or a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and democratic core

Comprises all activities which local authorities engage in specifically because they are elected multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

Current service cost (pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment

For a defined benefit pension scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Defined benefit scheme

A pension or other retirement benefits scheme where the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation

The measure of the cost, or revalued amount, of the benefits consumed during the accounting period relating to the non-current asset. Consumption includes the wearing out, using up or other reduction in the useful life of a non-current asset whether arising from use, passage of time or obsolescence through technological or other changes.

Expected rate of return on pensions assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value

The price at which an asset could be exchanged in an arms-length transaction less, where applicable, any grants receivable towards the purchase cost of the asset

Finance lease

A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

Financial asset

A right to future economic benefits controlled by the Council that is represented by cash, an equity instrument of another entity, a contractual right to receive cash (or other financial asset) from another entity or a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Council.

Financial liability

An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash (or other financial asset) to another entity or a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Council.

General fund

The main revenue fund of a local authority, which includes the net cost of all services, financed by local tax payers and Government grants.

International accounting standards

These accounting standards prescribe the methods by which all published accounts should be prepared and presented, and will over time replace UK accounting standards. Includes International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Impairment

A reduction in the value of a non-current asset below its carrying amount in the Balance Sheet.

Infrastructure assets

Non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Interest costs (pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Joint venture

This is an entity which the Council has an interest in and is jointly controlled by the Council under a contractual arrangement.

Minimum Revenue Provision

The minimum amount which must be charged to the Council's revenue account each year and set aside as provision for repayment of debt, as required by the Local Government and Housing Act 1989.

Net book value

The amount at which non-current assets are included in the Balance Sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net current replacement cost

The cost of replacing or recreating the particular asset in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net expenditure

The cost of providing a service after the deduction of any income.

Net realisable value

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Operational assets

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.

Past service cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post-employment benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of the employment. Includes pensions but not termination benefits payable as a result of redundancy/voluntary redundancy, because these are not given in exchange for services rendered by employees.

Precept

A method by which local parishes, Lancashire Police Authority and Lancashire Combined Fire Authority obtain the income they require by Blackburn with Darwen Borough Council adding the precept to its own council tax and paying over the appropriate cash collected.

Property, plant and equipment

Tangible assets (i.e. assets with physical substance) held by the Council for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used for more than one period.

Provision

An amount set aside by the Council for any liability of uncertain timing or amount that has been incurred.

Public Works Loan Board (PWLB)

A Central Government agency which provides long and short term loans to local authorities at interest rates slightly higher than those at which the government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Related parties

Two or more parties are related when at any time during the financial period one party has direct or indirect control of the other party, the parties are subject to common control by the same source or where one party has influence over the financial and operational policies of the other, or both parties are subject to the influence from the same source, to an extent that they might be inhibited from pursuing their own separate interests.

Related party transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made. The materiality of related party transactions should be judged not only in terms of their significance to the Council, but also in relation to its related party.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserve

Amounts set aside for purposes falling outside the definition of a provision are considered as reserves.

Revenue expenditure funded from capital under statute

Expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset, e.g. private sector housing improvement grants.

Revenue support grant

A Government grant in aid of local authority services generally. It is based on the Government's assessment of how much the Council needs to spend in order to provide a standard level of service.

Termination benefits

Amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Code

Code of Practice on Local Authority Accounting in the United Kingdom (Based on International Financial Reporting Standards).

BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and Customer Services
DATE:	12th January 2021

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2020/21

Based on monitoring information for the period 1st September – 30th November 2020

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1. PURPOSE

To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee notes the Treasury Management position for the period.

3. BACKGROUND

3.1 The Treasury Management Strategy for 2020/21, approved at Executive Board in March 2020, complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

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 Bank of England Bank Rate

The Bank of England Bank Rate has remained steady during the period, having been reduced to 0.1% in March 2020 at the start of the COVID-19 pandemic.

4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing). These balances have fluctuated significantly across the period, ranging between £35M and £60M. Investment balances continued to be unusually high during this period, because of funds received from central government. Funds received from central government included both grants received in advance of their usual payment dates and additional funds in respect of extra costs and the distribution of grants to businesses, in relation to the response to the COVID-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £10 M and £20 M.

Investments made in the period were mainly in "liquid" (instant access) deposits, either bank "call accounts" or Money Market Funds (MMFs). Returns on MMFs holdings had decreased significantly by the end of the period, to around 0.03%. Bank deposit account rates have also decreased over the period, all now paying 0.01%.

On 25th September the 'less than 2 week' deposit rates on the UK Government's Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3 week deposits and 0.01% for longer maturities. By the end of the period the 'less than 2 week' deposit rates had returned to 0%, longer-term deposit rates remained the same.

For limited periods, funds were also placed with the Government's Debt Management Account Deposit Facility (between 0.005% and 0.01%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
09-Jun-20	2 days notice	Thurrock Metropolitan Borough Council	£5,000,000	0.40%
29-Sept-20	29-Oct-20	Surrey County Council	£5,000,000	0.05%
27-Nov-20	27-Jan-21	Central Bedfordshire Council	£5,000,000	0.03%

At 30th November, the Council had approximately £59.9 M invested, compared to £40.4 M at the start of the period. Appendix 2 shows the breakdown of the closing investment balance.

The Council's investment return over the period was approximately 0.07%.

For comparison, benchmark LIBID (London Interbank Bid) rates were:

(a) 1 month lending - decreasing over the period, averaging -0.08% and ending at -0.09%

(b) 3 month lending - decreasing over the period, averaging -0.07% and ending at -0.08%

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. A HM Treasury consultation on lowering PWLB rates concluded in July 2020 and the outcome announced at the end of November 2020, resulting in an immediate 1% reduction in the PWLB rates, for those authorities with no intention to buy investment assets primarily for yield.

The cost of short-term borrowing, based on loans from other councils, have remained stable during the period. Interest rates on loans from 3 months out to a year were priced at low rates between 0.02% to 0.40% by the end of the period.

The Council continues using short-term borrowing, with balances having remained consistent during the period, but should we need to borrow over the longer term this may be more expensive. Should the need arise, we will review the options available.

It is expected that interest rates will remain low for the foreseeable future.

4.4 Short Term Borrowing 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 significantly below the CFR – the gap has widened as long-term debt has been repaid. We have been using "internal borrowing" from available revenue cash balances to partly cover this gap. The remaining gap has been 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. This has resulted in net interest savings.

Up to the end of November, short-term borrowings have remained stable, as loans of £27M were repaid and £27.25M of new loans were taken (listed below).

New loans taken in the period

Start Date	End Date	Counterparty	Amount £	Rate
25/09/2020	24/09/2021	Merseyside Fire and Rescue Service	2,000,000	0.40%
25/09/2020	25/06/2021	Police & Crime Commissioner Hampshire	3,000,000	0.35%
01/10/2020	30/09/2021	Vale of Glamorgan Council	2,250,000	0.55%
30/10/2020	28/05/2021	Hampshire County Council	4,000,000	0.29%
30/10/2020	28/05/2021	Hampshire Fire and Rescue Authority	1,000,000	0.29%
09/11/2020	08/11/2021	Wokingham Borough Council	5,000,000	0.40%
10/11/2020	10/08/2021	West Midlands Combined Authority	7,000,000	0.35%
24/11/2020	27/08/2021	Police and Crime Commissioner for Avon and Somerset	3,000,000	0.25%
			27,250,000	

Future deals already agreed by end of period

Start Date	End Date	Counterparty	Amount £	Rate
14/12/2020	13/12/2021	South Derbyshire District Council	5,000,000	0.30%
23/12/2020	23/07/2021	Derbyshire County Council Pension Fund	5,000,000	0.30%
19/01/2021	19/08/2021	Derbyshire County Council Pension Fund	5,000,000	0.30%
01/02/2021	01/09/2021	Oxfordshire County Council	5,000,000	0.30%
19/02/2021	18/02/2022	West of England Combined Authority	5,000,000	0.40%
28/01/2021	28/07/2021	Crawley Borough Council	5,000,000	0.20%
19/03/2021	18/03/2022	West of England Combined Authority	5,000,000	0.40%
			35,000,000	

4.5 Current debt outstanding -

	31st August 2020		30th November 2020	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	25,000		48,000	
Greater than 3 months (full duration)	56,000		33,250	
		81,000		81,250
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	131,652		129,535	
Stock & Other Minor Loans	263		263	
		149,915		147,798
Lancashire Council County – Transferred Debt		14,007		14,007
Recognition of Debt re PFI Arrangements		62,659		62,206
TOTAL DEBT		**307,581**		**305,261**
LESS: TEMPORARY LENDING				
Fixed Term		(15,100)		(37,000)
Instant Access		(25,323)		(22,993)
NET DEBT		**267,158**		**245,268**

The key elements of long term borrowing set out above 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) £131.7M borrowed from the PWLB at fixed rates, at an overall average rate of around 4%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.7% 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 2.25%.

(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.

4.6 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the current year.

With regard to the movement in the key indicator, **Total Borrowing against the Authorised Borrowing Limit**, this is shown as the first graph in Appendix 4. Total borrowing at 30th November 2020 was £305.3M, which is below both our Operational Boundary (£360.8M) and our Authorised Borrowing Limit (£370.8M) for 2020/21.

This year we have remained within both our Operational Boundary – which is set for management guidance - and the (higher) Authorised Borrowing Limit. The Authorised 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 still represent a cheap way to fund marginal changes in its debt. This remains under review, with regular updates from the Council's treasury management advisors, Arlingclose.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £35.4M, against the **limit** set for this year of £116.4M.

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 £134.8M, against the **limit** of £267.2M. 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 much higher levels of new long-term, fixed rate borrowing. There are still significant levels of short-term debt.

4.7 Treasury Management Strategy for 2021/22

The Council's proposed Treasury Management Strategy and Treasury Management Indicators for 2021/22 will be submitted to Executive Board in March 2021.

The content of the strategy remains largely similar to the previous year, taking into account the amendments made during the 2020/21 Treasury Management Strategy Mid-Year Review, approved by Executive Board on 12th November 2020.

Details of the proposed draft strategy are included in Appendix 6.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

7. LEGAL IMPLICATIONS
The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

8. RESOURCE IMPLICATIONS
None

9. CONSULTATIONS
None

10. STATEMENT OF COMPLIANCE
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

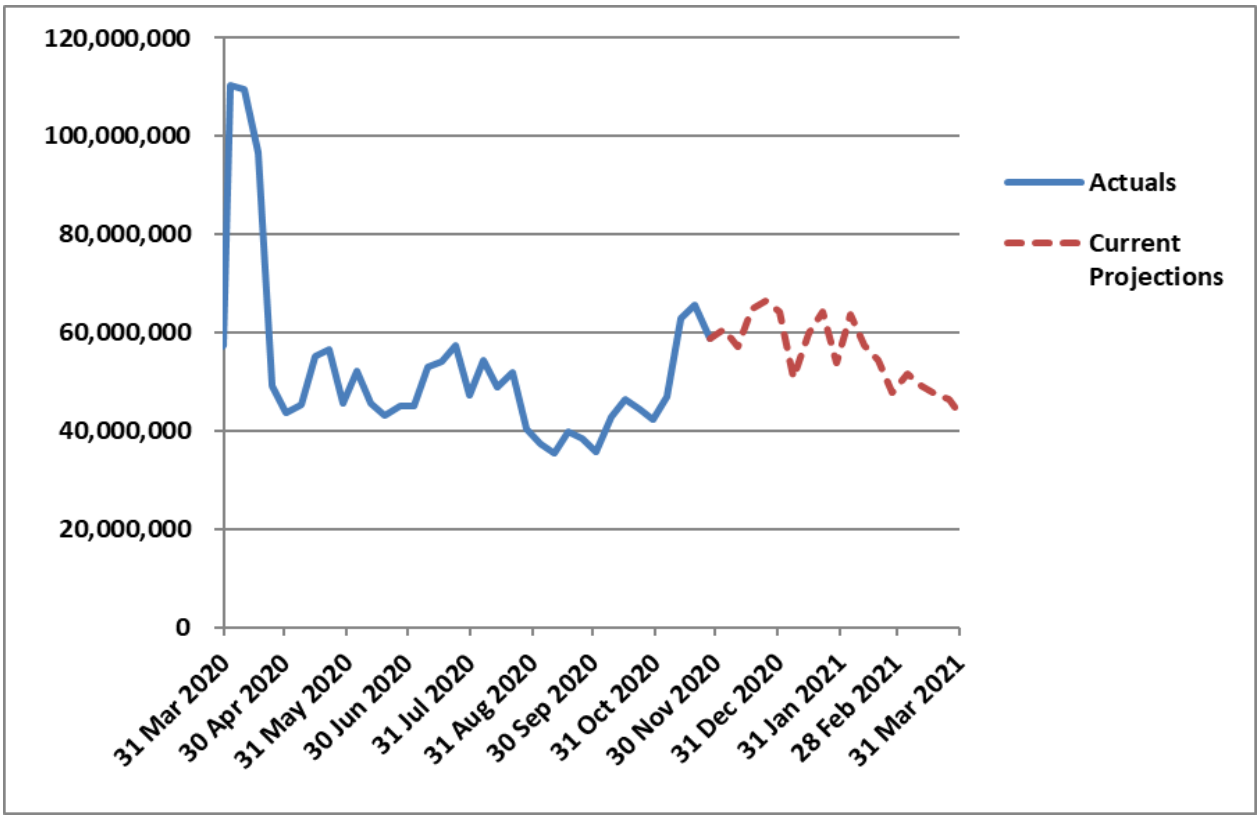
VERSION:	**0.01**

CONTACT OFFICER:	Jody Spencer-Anforth – Finance Manager extn 507748 Louise Mattinson - Director of Finance & Customer Services extn 5600
DATE:	December 2020
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved by Executive Board 12th March 2020

Weekly Investment balances

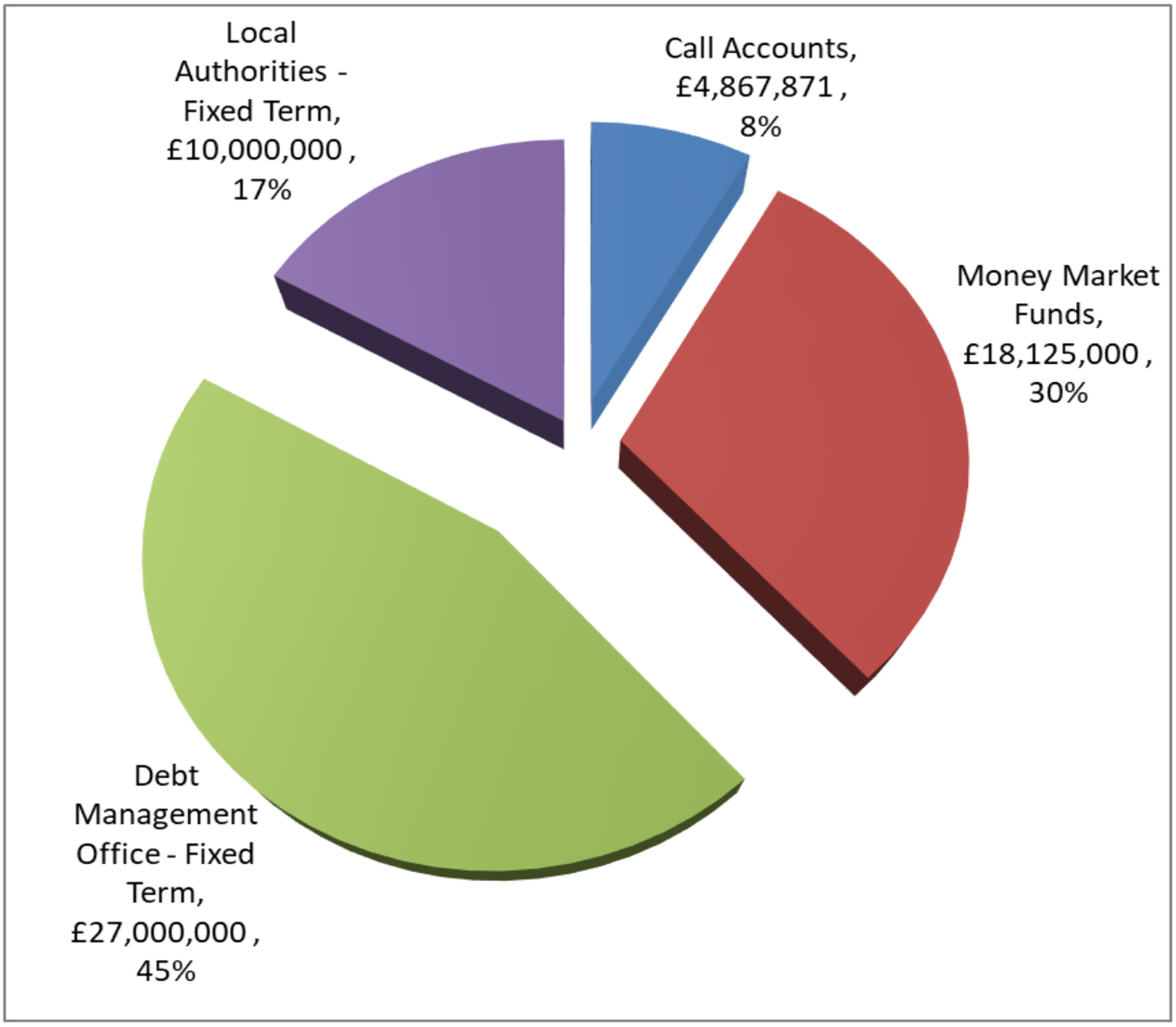
Appendix 1

2020/21 (Feb 20 to Mar 21)



Investments at 30th November 2020

Appendix 2



Performance against Treasury & Prudential Indicators 2020-21 (approved by Council 24th Feb '20/ Exec Board 12th Mar '20)

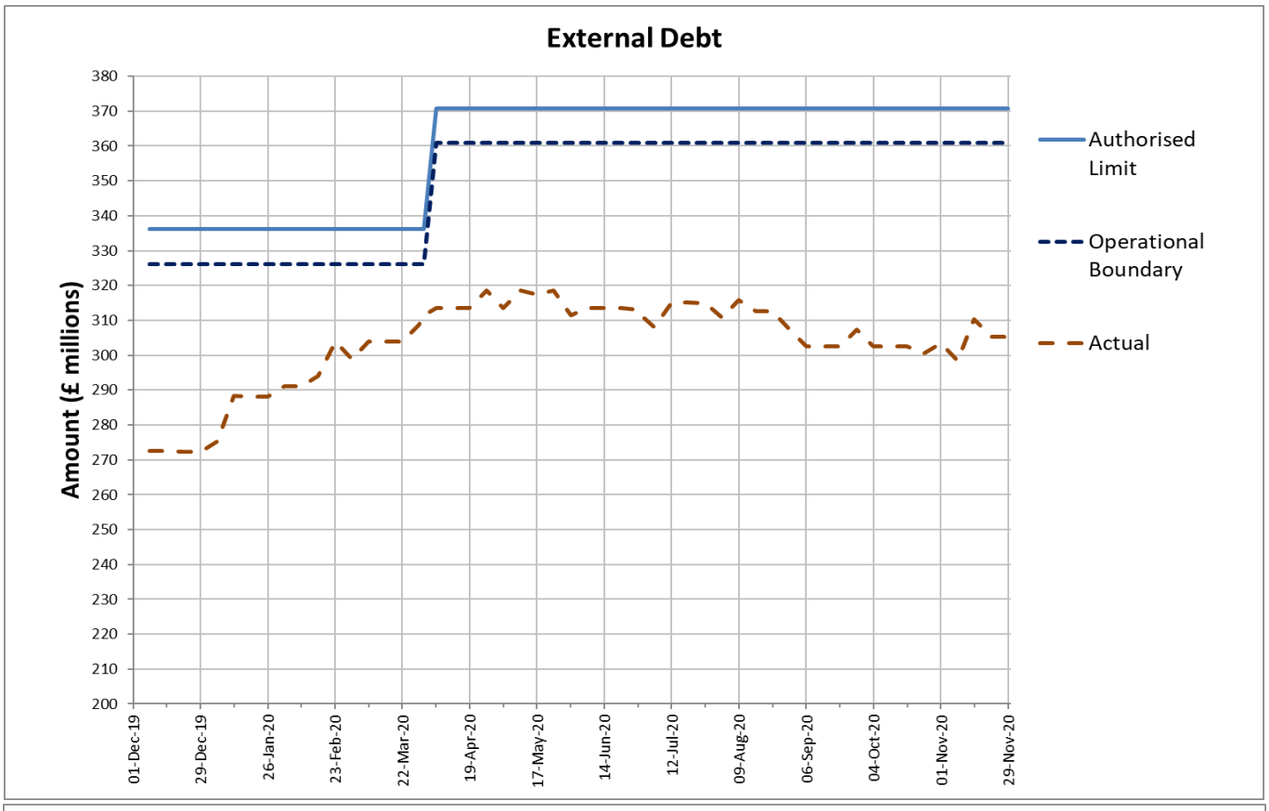
Appendix 3

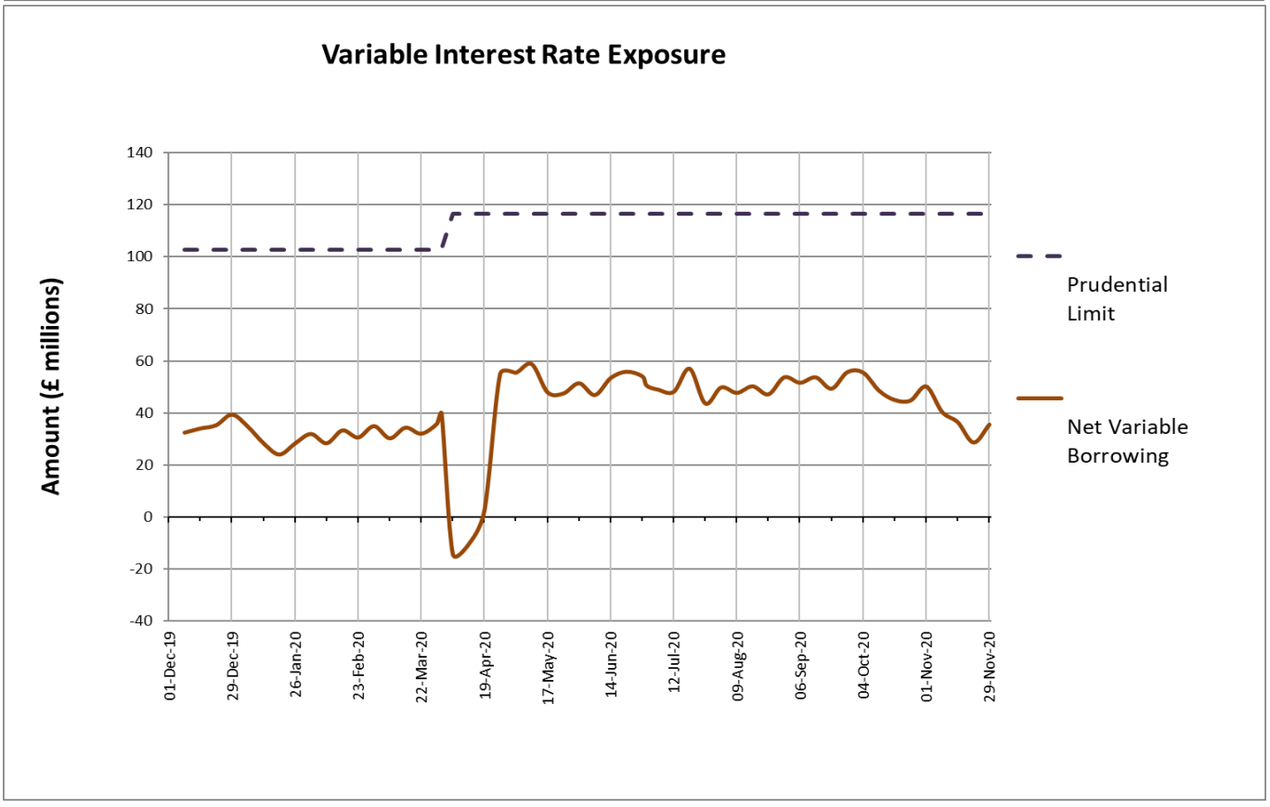
	Indicator 2020/21	As approved Feb/Mar 20	Current Monitoring	Commentary
PRUDENTIAL INDICATORS	Estimated Capital Expenditure	£40 M	£38 M	
	Estimated total Capital Financing Requirement at end of year	£307.3 Million (incl projections re LCC debt £15.0M and accumulated PFI / Lease debt £69.3M)	These indicators 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	
	Estimated ratio of financing costs to net revenue stream	13.68% (Main Programme Capital Spend)		
	Outturn External Debt prudential Indicators	LCC Debt 15.0M PFI elements (no lease) 69.3M Remaining elements 276.5M **Operational Boundary 360.8M** **Authorised Borrowing Limit 370.8M**	**Borrowing to date £M** LCC Debt 14.0 PFI Elements 62.2 BwD 229.0 **Total 305.2**	LCC debt and BSF PFI debt will both fall across the year, as debt payments are made
TREASURY	Variable Interest Rate Exposure	£116.4 M	Exposure to date £35.4 M	Limit not breached during the year
	Fixed Interest Rate Exposure	£267.2 M	Exposure to date £134.8 M	Limit not breached during the year
	Prudential limits for maturity structure of borrowing	**Lower Limit / Upper Limit / Period (Years)** 0 / 50% / <1 0 / 30% / 1-2 0 / 30% / 2-5 0 / 30% / 5-10 25% / 95% / >10	**Actual maturity structure to date** **Period (Years) / £M / %** <1 / 93.5 / 41% 1-2 / 3.5 / 2% 2-5 / 26.9 / 12% 5-10 / 28.3 / 12% >10 / 76.8 / 34% **Total 229.0 100%**	
	Total investments for longer than 364 days	£7 Million	**NO LONG TERM INVESTMENTS MADE**	

Movements in Prudential Indicators - Total Debt and Variable Interest Exposure

Appendix 4

Year to 30th November 2020





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).

DRAFT TREASURY MANAGEMENT STRATEGY 2021/22

1 **Introduction**

1.1 The Authority both borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

1.2 Treasury risk management for local authorities is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires each authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2 **Borrowing Strategy**

2.1 The authority will continue to need to take borrowing in support of funding its capital programme. The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

2.2 With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

3 **Investment Strategy**

3.1 On a day to day basis the Council can hold significant surplus funds representing income received in advance of expenditure requirements, in addition to balances and reserves held. In the past 12 months, the Council's investment balance has ranged from £20 to £110 million, reflecting in particular the profiles of capital spending, grant funding, short-term borrowing levels and long-term debt repayments.

3.2 Cash flow surpluses can be considered as falling into three categories –

- **Short-term funds** that are required to meet cash flows occurring in the next month or so, and for which the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

- **Medium-term funds** that may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A spread of counterparties and

maturity dates will be maintained to maximise the diversification of credit and interest rate risks.

- **Long-term funds** that are not required to meet any liquidity need and can be invested with a greater emphasis on achieving higher returns. Security remains fundamental however, as any losses from defaults will impact on the total return. Liquidity is of lesser concern, although it should still be possible to sell investments with due notice if large cash commitments arise unexpectedly. This is where a wider range of instruments, including structured deposits, certificates of deposit, gilts, corporate bonds and pooled funds in bond, equity and property funds, which could be used to diversify the portfolio.

3.3 Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into secure higher yielding asset classes during 2021/22. This is especially the case for amounts estimated to be available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and money market funds along with fixed term deposits with other local authorities and the Debt Management Office (DMO). This diversification will represent a change in strategy over the coming year.

3.4 The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested

4 Investment Criteria and Treasury Management Indicators for 2021/22

4.1 The proposed investment criteria and treasury management indicators are expected to be essentially the same levels as were agreed last year.

4.2 As the Council's capital programme for 2021/22 – 2023/24 is yet to be finalised, these criteria and indicators remain under review.

TO:	Audit & Governance Committee
FROM:	Head of Audit & Assurance
DATE:	12 January 2021

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 30 November 2020**

1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 October 2020 to 30 November 2020.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 November 2020 against the annual 2020/21 Audit & Assurance Plan, as approved by the Committee on 29 July 2020.

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.

The work completed to date has not identified any significant governance, risk management or control issues to bring to the Committee's attention at this time. However, the Committee should consider the information provided in the following sections regarding the work carried out during the period and the summary of issues in respect of the limited assurance audit noted.

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 the Public Sector Internal Audit Standards (PSIASs).

The work undertaken throughout the year is intended to ensure that:

- an objective and independent opinion can be provided at the year-end which meets the PSIAS and statutory governance requirements;
- it demonstrates the effectiveness of the internal audit function; and
- support is provided to Members, Directors and managers in their particular

areas of responsibility throughout the year.

5. KEY ISSUES

Outcomes achieved in the year to 30 November 2020:

Counter Fraud Activity

National Fraud Initiative (NFI)

Work is currently underway to prepare for the 2020/21 NFI. All necessary data has been supplied to the Cabinet Office as required in accordance with the deadlines. The resultant data matches will be returned to the Council for review and action early in the new year.

Other investigations

Audit & Assurance is continuing to liaise with the Police in the case of a suspected client fraud.

Internal Audit

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

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Police & Crime Commissioner Grant	Adequate	Adequate	2
Council Tax	Substantial	Substantial	2
Young Peoples Service – Educational Visits Risk Assessments	Substantial	Adequate	5
Arrangements for the Use of the Contractor & Development Framework	Substantial	Substantial	2
Arrangements for Lease of Blakey's café bar to EastzEast	No	N/A	8
St Cuthbert's CE	Adequate	Adequate	16
St Matthews CE Primary School	Adequate	Adequate	20

A brief commentary on the audit assignment where we have provided a no assurance opinion is set out below.

Arrangements for Lease of Blakey's café bar to EastzEast: The agreed objective was to review the legal, decision-making, and corporate procedures and processes when granting leases (or occupation of Council owned premises) to understand how the current situation has arisen and how to avoid any repetition in the future.

In respect of the lease for Blakey's café bar to EastzEast, no assurance could be provided on compliance with the Council's processes and procedures for granting leases in this instance, due to the lack of clear understanding of the ownership and responsibility for control of the project. Recommendations made included:

- establishing a tracking system to ensure that all Executive and other decisions have been actioned/implemented as approved;
- ensuring that a designated lead client officer/project owner is identified where Departments are leading on lease arrangements;
- roles and responsibilities of staff involved must be agreed, adequately communicated and clearly understood by the relevant individuals and/or teams involved;
- where Departments lead on any lease arrangements with third parties, they must liaise with the Estates Management team for advice and support. The Estates Management Team must co-ordinate the lease arrangements and act as a single point of contact in the process;
- all staff involved in lease arrangements must be reminded to escalate any concerns regarding delays or lack of progress of any negotiations or finalising lease details to all appropriate senior managers in a timely manner; and
- the Property portfolio should be reviewed to identify all existing arrangements for tenanted council properties/assets to ensure up-to-date signed leases are in place and that these are being managed in line with the Council's processes and procedures.

Current internal audit reviews

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

- Ofsted Inspection Framework;
- Income billing & collection arrangements (Car Parking and Cemeteries);
- Building Control Performance Standards;
- Commercial Property Rental;
- Creditors;
- Market Stall Leasing Arrangements;
- Payroll Core System;
- Corporate Appointee;
- Governance Arrangements;
- Planning Enforcement; and
- Mileage Payments/Staff Expenses.

Internal Audit Performance

The Departmental Business Plan includes seven targets to achieve our strategic aims. The defined targets and actual performance for the latest period and the previous period are as follows:

Performance Measure	**Target**	**Q3 2020/21**	**Q2 2020/21**
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A

2. Planned Audits Completed Within Budget	90%	**57%**	75%
3. Final Reports Issued Within Deadline	90%	100%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	73%
5. Recommendations Implemented	90%	**100%**	85**%**
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	N/A

We have provided a brief commentary on the measure where performance in the period has fallen below the agreed target:

2. Planned Assignments Completed Within Budget

Three of the seven audits (43%) completed in the period were over budget. Additional time was required to complete the two schools audit reviews as audit staff carried these out remotely due to the pandemic restrictions. Additional time was required for educational trips and visits risk assessment review. This was the first time this area had been audited. Additional time was required for background work and planning, as well as completion of remote testing and finalisation of the report with the Department

5. Recommendations Implemented

All follow up reports were issued within the target timescale. We did not receive a response to our follow up of the Blue Badges review within target deadline due to staff absence. The report contained two 'should' recommendations.

6. POLICY IMPLICATIONS

The 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: 23 December 2020
Background Papers: Audit & Assurance Plan 2020/21, approved by the Audit & Governance Committee on 29 July 2020.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**12 January 2021**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Annual Governance Statement (AGS) – Progress of 2019/20 Actions and 2020/21 Approach/Timetable

1. PURPOSE

To inform Members on progress of the actions taken to address the significant governance issues identified in the 2019/20 AGS and the planned approach and timetable for producing the 2020/21 Statement.

2. RECOMMENDATIONS

The Committee is asked to:

- review the progress made to address the significant actions identified in the 2019/20 AGS; and
- note the approach/timetable for producing the 2020/21 AGS.

3. BACKGROUND

The Accounts & Audit Regulations require that the Council must publish an AGS on an annual basis in accordance with proper practice. The Audit & Governance Committee is also required to review and provide independent assurance on the Council's governance framework.

4. RATIONALE

The AGS is a product of the Council's own review of its framework of governance. This framework comprises the policies, systems and processes, the culture and values, by which the organisation is directed and controlled, and its activities through which it accounts to, engages with and leads the community. The framework itself is based on guidance issued by CIPFA/SOLACE. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

5. KEY ISSUES

The AGS is a statutory document that is published each year to accompany the Council's Annual Statement of Accounts. It outlines the arrangements that are in place to direct and control the Council's activities (the governance framework). It also includes an annual assessment of the effectiveness of the governance framework. Any significant governance issues identified must be reported, along

with an explanation of actions taken in the year to address the significant governance issues identified in the previous year's statement.

Actions from 2019/20 AGS

The following significant issues were noted in the 2019/20 AGS:

- Children's Services Financial Position - action brought forward from 2017/18;
- Adult Social Care Commissioning - 2019/20 action; and
- Impact of COVID-19 on the financial position of the Council - 2019/20 action.

Details of the progress made to 30 November for each of these areas is provided in Appendix 1. These show that appropriate steps have been taken by senior officers and managers in respect of the issues identified and that these are largely in accordance with the expected targets. However, the commentary notes that there is still volatility in Children's Services commissioning and there is the potential for numbers and costs to increase. There is also a level of uncertainty in these areas depending on the impact of the second wave of the pandemic, the winter demand pressures and the possibility of a third wave.

Approach for 2020/21

The MAF process provides ongoing assurance on the effectiveness of the Council's governance framework. Each director provides an update with regard to their departmental/operational plan priorities through their half-yearly "Directors Exception/Dashboard Report and Assurance Statement". These include confirmation of the effective operation of sound systems of internal controls, risk management and governance arrangements within their department and highlight any exceptions and actions required to address these. These reports, combined with the Audit & Assurance review, provide appropriate challenge to the process, with significant "red" issues identified reported to the Management Board and Audit & Governance Committee for consideration.

There is a year-end process (led by Audit & Assurance), which provides further assurance on the Council's governance framework. This includes the receipt of signed annual assurance statements from each Director for their areas of responsibility. This statement requires each Director to provide an assessment of their Departmental governance arrangements and systems of internal control, with an action plan for any areas of weakness identified. The year-end process also involves the collection and assessment of evidence to determine the Council's compliance with the core principles of good governance to support the AGS. This evidence includes examples of systems, processes, documentation and other evidence (including self-assessment tools and sources of further guidance) as recommended in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government: Guidance Note for English Authorities 2016 edition".

Proposed Timetable for 2020/21 AGS Completion and Related Processes

Deadline	**Action**
8 March 2021	Circulation of director annual statement of assurance templates.
16 April 2021	Completion and return of Year-end MAF Directors Exception/Dashboard reports.
26 April 2021	Receipt of signed director annual statements of assurance.

	Receipt and collation of annual governance core principle evidence.
14 May 2021	Year-end MAF PAM challenges.
19 May 2021	Year-end MAF significant “red” issues reported to Management Board.
2 June 2021	AGS evidence and statements considered by Primary Assurance Group (PAG).
8 June 2021	Production and agreement of draft 2020/21 AGS by PAG for consideration by Management Board.
22 June 2021	Year-end MAF significant “red” issues reported to Audit & Governance Committee. Approval of AGS by Audit & Governance Committee.
29 June 2021	AGS signed by Chief Executive and Leader of the Council.
30 July 2021	AGS published.

6. POLICY IMPLICATIONS

The Code of Corporate Governance sets out the core principles for good governance. These guide the Council’s policy making.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from the AGS process.

8. LEGAL IMPLICATIONS

The Council’s preparation and publication of an annual AGS, that accords with the CIPFA/SOLACE Framework, is necessary to meet the statutory responsibility (set out in Regulation 6 (2) of the Accounts & Audit Regulations 2015) This responsibility requires that an AGS is prepared in accordance with proper practices and accompanies the statement of accounts.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising from this AGS process.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality or heath implications arising from this AGS process.

11. CONSULTATIONS

Directors of Finance & Customer Services, Adults & Prevention, and Children’s Services & Education.

Contact Officer: Colin Ferguson, Head of Audit & Assurance – Ext: 5326
Date: 31 December 2020
Background Papers: 2019/20 AGS approved by Audit & Governance Committee on 29 July 2020.

APPENDIX 1

Annual Governance Statement (AGS): Progress on Addressing 2019/20 AGS Significant Issues Identified

Issue	2019/20 Issue/Actions to be taken	Responsible officer(s)	Half Year Progress Update – November 2020
1. ***Children's Services Financial Position*** *(Brought forward from 2017/18)*	The Children's Services budget position continues to face demand pressures in 2019/20 in line with those experienced in 2018/19, due to an increase in the volume of work being referred to the Social Work Service and sustained pressure on the out of borough budget due to the number of placements and complexity of needs. The number of social workers with higher than the recommended caseload is also a concern. These issues have led to a need for an increase in social workers to manage demand. The Portfolio continues to mitigate demand pressures as far as possible and is utilising underspends on other areas of activity to offset placement pressures to reduce the portfolio's forecast overspend. Measures have been implemented to manage the "front door" and assessment activity more effectively, and the Department continues to explore options to re-focus, and build capacity, in more cost-effective 'in-house' services. However, these strategies will take at least twelve months to impact on the whole of the service in order to affect real change and before there are fewer numbers of 'looked after' children and a resultant reduction in the cost pressures.	Director of Children's Services	The portfolio has invested in strategies to reduce demand, such as the introduction of the Children's Advice and Duty Service, which is already having a positive effect in driving down both the number of referrals into the department and the caseloads of staff within social work teams. It is expected that this in turn will have a knock on effect on staff retention and result in a reduction of sickness absence, therefore reducing the need to recruit expensive agency staff. The strategies highlighted above, alongside further recruitment of our own internal foster carers, should all contribute to driving down expenditure on externally commissioned placements, which is the largest contributing factor to the financial pressures facing the portfolio. In acknowledgment of this pressure, and to assist with closer tracking of placements, the Finance Department now have a representative at the commissioning review panel meetings. The frequency of these meetings has also now been increased. Whilst every effort will be made to reduce the dependency on externally commissioned placements, the numbers having already reduced significantly in the last 12 months, this remains a volatile area where factors such as large sibling groups

Issue	2019/20 Issue/Actions to be taken	Responsible officer(s)	Half Year Progress Update – November 2020
			remain beyond the control of the department and can have a significant impact on budgets. If we compare the currently forecasted position for 2020/21 on externally commissioned placements with the final position at outturn in 2019/20, we see a substantial reduction in expenditure of over £2m. This is in spite of the additional budget pressures experienced due to the Covid pandemic. The true impact of Covid remains to be seen however and there remains the potential for numbers and costs to increase. The portfolio will continue to maximise the use of available sources of external funding and is currently working closely with partner organisations on a joint commissioning framework for children and young people, which involves an agreement of tri-partite funding for specific care packages split evenly across Social Care, Education and Health. The funding panel meetings are being held regularly and to date over 40 cases have been approved for joint funding. Once this additional income from Health is factored into the monitoring position, it will reduce the forecasted position further still.
2. **Adult Social Care Commissioning**	Pressures for 2019/20 have increased due to the uplift in provider rates whilst the baseline budget remained unchanged. This was managed within the Portfolio during 2019/20 but cannot be sustained in the longer term due to the risk of market collapse, burn out or lower	Director of Adults & Prevention	A comprehensive range of Demand Management strategies remains in situ and the department is ensuring that accurate tracking processes against trends are in place. However, the ability to deliver those demand management strategies is

Issue	2019/20 Issue/Actions to be taken	Responsible officer(s)	Half Year Progress Update – November 2020
	assurance and quality. Providers are also being more commercial and selective, and there is diminishing resilience in the sector with the potential that providers may withdraw from the market. A comprehensive range of Demand Management strategies remain in situ and the impact that these are having will continue to be monitored during 2020/21. These are designed to delay, deflect or offer alternative solutions. An associated action plan has been developed to ensure adherence at every level within the department. This includes scrutiny of decision-making and commissioning spend. However there is a risk that complexity of cases and morbidities start to rise which would increase budget pressures. **Half year Issue Update:** As is the case each year the department sees pressures on the Commissioning budget around care sector prices due to the cost of the National Living Wage. The Council has no other option other than to acknowledge this payment otherwise the sector would not be sustainable, indeed many providers are identifying a risk to their ongoing sustainability as they believe the Council's uplifts do not meet the true cost of care within the sector. As far as possible these additional costs are factored in to the Council's Medium Term Financial Strategy however there continues to be a significant risk to BWD's care		challenged by the pandemic and the current situation in respect of hospital discharge. The department have continued to invest in the Complex Case Team who are working on CHC/Complex case trackers to reduce costs across a number of complex placements as far as possible. The department has a strong monitoring and management approach and the recent merger of ASC Finance with the Commissioning Team is enhancing this approach. We continue to monitor commissioning activity and spend very closely, and are working across the health and social care system to develop the market to respond to the care needs of our population and provide value for money. The commissioning budget at the half year point is in a good position. However as advised in the commentary on the budget, the full impact of Covid-19 and the winter season are not yet known. There are challenges of seeing higher levels of demand from the hospital discharge process being prioritised due to Covid and the very significant impact of many services being stood down impacting on further deterioration of independence. A further surge and Covid 2nd Wave likely to double the impact on Adult Social care, particularly as we head towards the Winter

Issue	2019/20 Issue/Actions to be taken	Responsible officer(s)	Half Year Progress Update – November 2020
	economy resulting from having a low starting base compared to near neighbours. The care market has been hit significantly by Covid-19 and this is most certainly likely to result in a change in the market with the Council seeing inflation/general care costs significantly higher than in previous years. Also there is potential for some providers to exit the market, impacting on the local authority's ability to meet its statutory duties. Occupancy levels within the residential and nursing sector have fallen due to Covid-19, with some providers struggling to maintain their provision within the care market. The department continues to support providers to provide some stability but this does result in significant pressure on social care activity and financial costs.		period.
***3.* Impact of COVID-19 on the financial position of the Council**	The Council is experiencing increased costs, significant loss of income, and has received insufficient government funding to respond to the issues arising from Cov-19. The position is exacerbated as the Council's capacity to address the financial position arising from the required response to the virus is limited, given the low level of Unallocated and Earmarked Reserves at its disposal. **Half year Issue Update:** As reported to Policy Council on 3rd December 2020, we are facing significant financial	Chief Executive and Directors	Work to collate both the actual costs incurred and the income lost due to Covid-19 has continued throughout the year, and we will continue to review and refine the assumptions, on which the forecasts are based, over the remainder of the financial year. The Revenue Monitoring Report approved by the Executive Board on 12 November 2020, noted a gross forecast overspend of £19.241 million for the year across all the portfolios due to the financial impact of

Issue	2019/20 Issue/Actions to be taken	Responsible officer(s)	Half Year Progress Update – November 2020
	pressures from the increased costs and losses of income due to the pandemic. Some of the additional financial pressures we are currently forecasting for the year, as reported in our latest monthly Covid-19 financial return to MHCLG, include: £7.252 million on Adult Social Care including the costs of PPE, the costs of setting up the food hub and associated costs to distribute food to shielded and vulnerable groups, providing support to the social care market and meeting the additional demand pressures arising due to Covid-19. £0.842 million on Children's Social Care, including the additional costs of care packages for extended placements due to the pandemic £1.367 million on testing, contract tracing and outbreak management £10.113 million in respect of the loss of sales, fees, charges and commercial income.		Covid-19; this figure excluded the losses from Council Tax and Business Rates, which are currently forecast at £1.37 million and £7.925 million respectively. The Government has provided several funding packages for local government over the course of the last 8 months. These have assisted in addressing the budget pressures noted above, and other specific costs incurred in responding to the crisis. To date we have received £15.03 million in general Covid-19 Grant funding. Further financial support is to be made available to assist in meeting a proportion of the losses in respect of Sales, Fees and Charges based on a set of eligibility criteria issued by MHCLG. The first of these claims was completed at the end of September. Based on the work undertaken to forecast the total eligible losses under this scheme, we estimate that we should receive £5.75 million for the year. In respect of losses on Council Tax and Business Rates, the government has also passed legislation to provide for their recovery over a period of 3 years from 1st April 2021. The size of the net 2020/21 forecast overspend due to Covid-19 has decreased

Issue	2019/20 Issue/Actions to be taken	Responsible officer(s)	Half Year Progress Update – November 2020
			significantly over the course of the first 6 months of the financial year as the government has fed through various tranches of financial support to assist. We are however, very much mindful that our forecasts and assumptions are based on the information available at the current time; these may well change over the remainder of the year, dependant on the impact of the 2nd wave of the pandemic, the demand pressures over the course of the winter and given the possibility of a 3rd wave.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**26 January 2021**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2020/21 Quarter 2 Review

1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 June 2020 to 30 September 2020.

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 2 2020/21;
- 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 Council's Corporate Plan priorities and 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 contained 15 open risks at 30 September 2020.

A summary of the corporate risk details is set out in Appendix 1 of this report. Corporate risk 21, the risk the Council is unable to recover its critical functions, core services and income generating functions, during the transition and recovery phases of a COVID-19 outbreak has been closed due to the increase in the rate of Covid-19 infections in the borough, and the move into tier 3 restrictions. Instead Corporate risk 20, relating to the delivery of critical and core services and functions during the response and mitigation phase of the Covid-19 outbreak, has been re-opened.

As at 30 September 2020 the Council's top corporate risks were:

- Failure to deliver a balance budget and Medium Term Financial Strategy, which may result in a Government Commission taking control of the Council's finances;
- A high profile serious or critical safeguarding case that is known to the Council services, in light of Covid-19 working arrangements; and
- The ability of the Council to recover its critical functions, core services and income generation during the response and mitigation phases of a Covid-19 outbreak due to high staff absences and a failure of effective business continuity arrangements.

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 risk 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.

We have also continued to use the risk management support that is available from Zurich Municipal as part of the current long term insurance agreement. As well as a series of webinars, Zurich delivered a Digital Customer Week in November covering a wide range of topics. We have also continued to liaise with departments and our underwriter to provide advice and support regarding the insurance policies in place and to arrange additional insurance cover where required.

Zurich has also published a wider range of guidance notes during the period. These have covered topics such as risk control measures for the temporary closure of premises, managing additional homeworking exposure, working from home display screen equipment (DSE) risk assessments, the cyber dimension of the corona virus, guidance on moving from response to recovery, planning for a return to the workplace and guidance for reopening schools.

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 by Risk Owners and Key Contacts, and has been agreed by Management Board.

Contact Officer:	Colin Ferguson Head of Audit & Assurance – Ext: 5326
Date:	23 December 2020
Background Papers:	Corporate Risk Management Strategy 2015/2020, 2019/20 Annual Risk Management Report (including Quarter 4 Review)

Summary Risk Register

Appendix 1

Update | Create | Insert

Directorate:
Department: Corporate Risk Register
Service:
Quarter and Year: Quarter 2 - 2020/21 — Date of last review: 30-Jun-20
Date: 30-Sep-20 — Date of next review: 31-Dec-20

Risk Nr	Risk Description	Date Raised	Strength of Existing Controls	Inherent L	Inherent I	Inherent Risk Rating	Residual L	Residual I	Residual Risk Rating	Target L	Target I	Target Risk Rating	Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	Previous Residual L	Previous Residual I	Previous Residual Risk Rating	Change in Score
1	Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Governement Commission taking control of the authority's finances	26-Jan-15	Good	5	5	HIGH	3	5	HIGH	1	2	LOW	Louise Mattinson	Simon Ross, Zoe Evans	Open	29-May-20	3	5	HIGH	-
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	Martin Kelly/ Martin Eden	Lee Kinder, Dwayne Lowe	Open	20-Apr-20	2	4	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	19-Nov-19	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	David Fairclough	Asad Laher	Open	28-Sep-17	2	2	LOW	-
7	Ensure BwD delivers its statutory function- Emergency Preparedness, Planning, Response, Recovery & BC Promotion (small & med 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	Denise Park	David Fairclough, Rachel Hutchinson, Sarah Riley	Open	17.04.2019	1	5	LOW	-
7b	Ensure delivery of statutory Civil Contingencies function - Business Continuity Management arrangements in place,planning, training testing & validating & execising procedures & plans: to protect Council's resilience, protect the community,& mitigate financial & reputational damage. Corpo Obj 1,2,5,6 link	22-Sep-16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Denise Park	David Fairclough, Paul Fleming, Rachel Hutchinson, Sarah Riley	Open	11.05.2020	2	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	16-Jul-19	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	Heather Taylor/Mark Aspin	Open	24-Apr-19	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	Jayne Ivory	Jo Siddle	Open	02-May-19	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	3	3	MEDIUM	2	2	LOW	Paul Fleming	Sarah Critchley	Open	06-Mar-20	3	3	MEDIUM	-
14	High profile serious/critical safeguarding incident/case that is known to Council services in light of Covid-19 working arrangements	20-Aug-13	Fair	4	5	HIGH	4	5	HIGH	3	5	HIGH	Sayyed Osman (DASS) / Jayne Ivory (DCS)	Paul Lee	Open	05-May-20	4	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	3	3	MEDIUM	2	3	LOW	David Fairclough	Fiona Eastwood	Open	30-Apr-19	3	3	MEDIUM	-
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	27-Jan-20	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	Martin Kelly	Simon Jones	Open	28-Apr-20	3	4	MEDIUM	-
20	The Council is unable to deliver its critical and core services and functions during the response and mitigation phase of a COVID-19 outbreak, due to high staff absences and a failure of effective business continuity management.	28-Feb-20	Fair	5	5	HIGH	4	4	HIGH	1	3	LOW	Dominic Harrison (Public Health element)/ Paul Fleming (Resilience & Emergency Planning Service)	Gifford Kerr & Rachel Hutchinson	Open	21-Apr-20	4	4	HIGH	-

Summary of closed risks

3 IT Infrastructure (Resilience) - OTH. The risk is now incorporated into the Business Continuity risk above.

6 Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget. Risk closed following discussion at Mgmt Board 12 June 2019. May require re-opening again during 2019/20 depending on budget pressures identified.

8 Failure to contribute effectively to economic growth within Blackburn with Darwen. Risk merged with Risk 18

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. Risk merged into Risk 18

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. Merged with Risk 1

19 EU Exit - Risk of inadequate planning/preparedness at a national & local level for a "no deal" exit from the EU arrangements on the 29.03, 12.04, 31.10.19. Risk retained but closed temporarily until end of December 2020.

21 The Council is unable to deliver its critical and core services and functions during the transition and recovery phase of a COVID-19 outbreak, due to high staff absences and a failure of effective business continuity management.